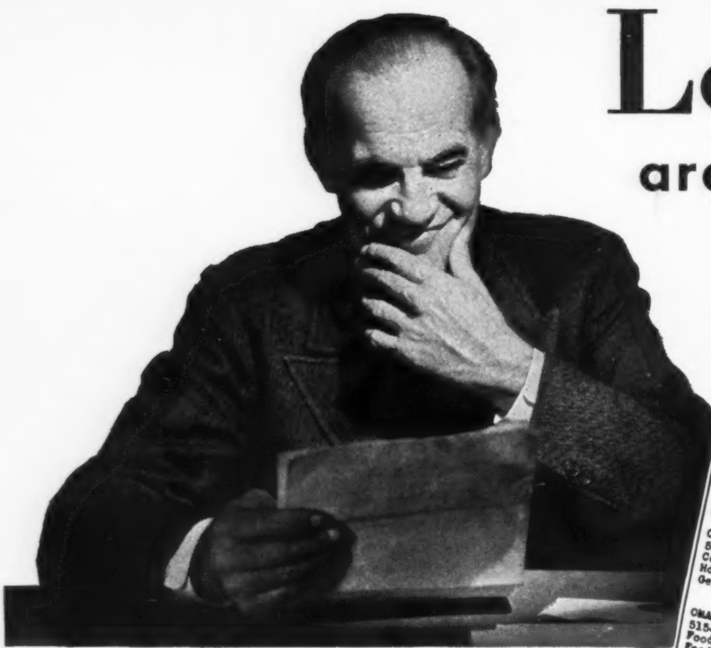
CREDIT and Financial Management

JULY 1946. In This Issue: Two Articles on Small Business Financing — An Editor Views Business — What Management Expects of the Credit Department — The Insurer's Viewpoint — Water In Your Backlog



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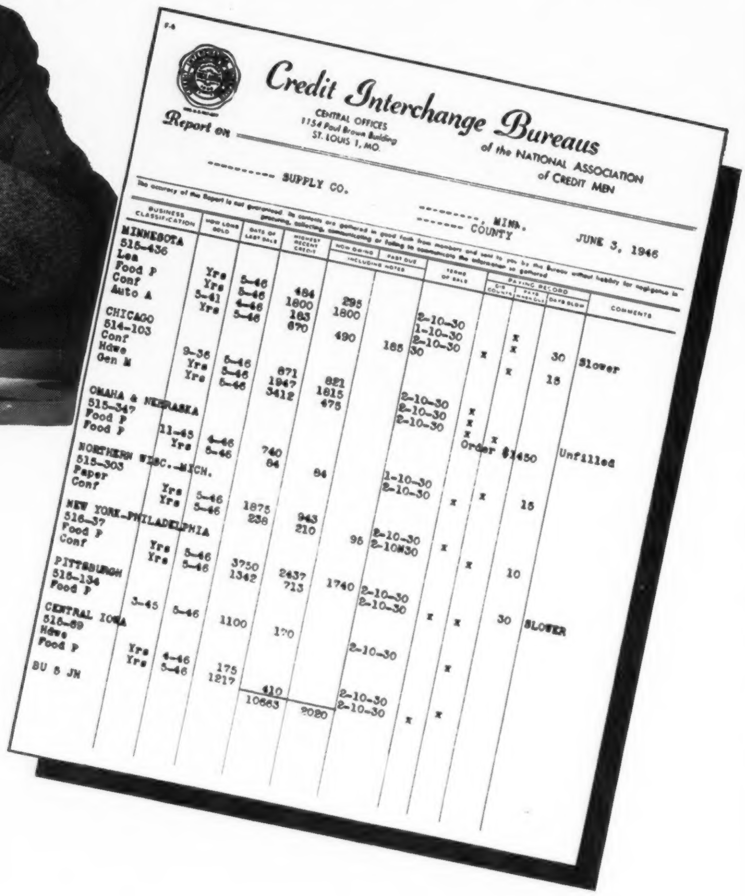

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CREDIT
AND FINANCIAL MANAGEMENT

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See Your Representatives

"Never cross a bridge until you come to it" may be a maxim which, if followed, will give some freedom from worry. Carry it to extreme and you may be left on the near side of the river. In a nation, in which planning is emphasized, it does seem odd that planning to meet developments that can and do become serious, is constantly deferred and delayed. The result of this failure is that we find ourselves in chaotic situations and then hastily try to scramble out as best we can.

A good example of this is the recent labor-management impasse. The signs of the times indicated this was coming and even the date of its arrival was reasonably certain, but we drifted along without trying to plan in advance to avoid the conflict or have a sound and mature solution when we faced it. It was an aroused public opinion that finally called for drastic action. The morale of the nation would have been much better had we started long ago to work out a solution. By intelligent planning we might have prevented much of our trouble.

It is very important now that we plan for the financial crisis that may face us in the years ahead. We have not for the past fifteen years, drawn a single breath as a nation in a sound financial atmosphere. We have continued vast deficits and added to our debt structure.

When an aroused public demands that we as a nation live within our income and that we begin storing up some funds to meet the inevitable period of hard times, then we may expect to live once again under a sound fiscal policy. American citizens should demand that we begin now to curtail governmental expenditures, balance our budget and cease this orgy of spending. If we do plan and act now the crisis ahead will be much less severe, for the right fiscal policy is one of the real protections against disastrous inflation or depression. Such a policy is long overdue and would contribute much more to the peace of the world than many programs we are scheduling.

Let us not be deluded by these stories about lopping off large sums from the Federal Budget. These are items which have been appropriated for the Armed Services and which were not needed after V-J Day. We read reports from Senator Byrd's committee which tell us that more than 39,000 new employes were added to the Government payroll in the one month of April who were not registered at the end of March. We then realize that the cost of our normal government is not decreasing.

So the question faces us: What are we going to do about it?

Public opinion is forcing action in the labor-management difficulty. The same public quite easily could bring an about-face on the question of cost of government. Your Representatives in the Congress soon will be home for an election recess. That would be an excellent time to tell them your views on this important matter.

Henry H. Heimann

HENRY H. HEIMANN,
EXECUTIVE MANAGER

Famous American Homes

Robert E. Lee as a Second Lieutenant

The Lees of Virginia

"STRATFORD HALL", the ancestral plantation home of the Lees of Westmoreland County, Virginia, is one of America's most famous homes and one of the few perfect examples of true Georgian architecture still standing.

So wisely was the house planned that no additions were ever added, and when it was purchased for a shrine by the Robert E. Lee Memorial Foundation in 1929, no rebuilding was necessary and the reconditioning of the main house was comparatively simple. The mansion and grounds were laid out prior to 1730, and took five years to complete. The house was built of brick that had been made by hand on the plantation, and was constructed in the form of an H, the wings of which were topped with twin sets of four great chimneys. The Great Hall on the second floor with its vaulted ceiling and hand carved paneling and pilasters, forms the bar of the H and was the scene of many brilliant gatherings during the Colonial period.

"Stratford Hall" has provided America with some of her most illustrious sons, among whom were Thomas Lee, a governor of Virginia and chiefly responsible for the purchase of the Ohio Valley from the Iroquois; Richard Henry Lee and Francis Lightfoot Lee, both signers of the Declaration of Independence; Lighthorse Harry Lee, George Washington's favorite officer, governor of Virginia and father of the beloved Robert E. Lee, the statesman and brilliant cavalryman of the War Between the States whose battle tactics were carefully studied during World War II.

Today, completely restored, the Great House and grounds which are open to the public are a fitting tribute to the Lee family whose sons contributed so much to the founding of this nation.

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FOREIGN CREDIT INSURANCE

A Discussion of the Proposed Export Insurance Act

by **PHILIP J. GRAY**
Manager
FOREIGN CREDIT INTERCHANGE BUREAU
National Association of Credit Men

All Members, whether previously engaged in international trade or contemplating entering it, will be vitally interested in the proposed Export Insurance Act of 1946 (S-2180) introduced in the Senate, May 13, 1946, by Senator Claude Pepper for himself and Senator James E. Murray and referred to the Senate Committee on Banking and Currency.

Senator Murray is Chairman of the Special Committee to Study Problems of American Small Business and Senator Pepper is Chairman of the Subcommittee on Foreign Trade of that Committee.

The bill, which is reproduced in its entirety elsewhere in this article, merits thorough study. In general it provides for a Foreign Trade Insurance Division to be set up in the Export-Import Bank of Washington, and authorizes an appropriation of $300,000 for administrative expenses of the Division and the issuance of an insurance capital stock of $100,000,000 to be subscribed by the United States Government, with the amount of insurance outstanding limited to five times the amount of this capital.

Two Types of Coverage

Under the bill, insurance would be extended either directly or in participation with other insurers to United States residents or partnerships or corporations organized under the laws of the United States or of any State, Territory, or possession, covering the export sale of "all the classes of commodities in United States exports on reasonable terms and as expeditiously as possible."

The proposed insurance is of two types: (1) Insurance against nonpayment resulting from the imposition by a foreign government of exchange controls. (2) Insurance covering default for any other reason. In other words the bill offers both Credit Insurance and an Exchange Guaranty.

No outstanding foreign trade organization has favored the Export Credit Insurance feature, while many of them have gone on record against such government insurance covering what is considered to be an ordinary business hazard. Of the other hand foreign trade organizations generally have found some merit in the Exchange Guaranty, and consider it a proper governmental function to offer such protection against hazards involving governmental actions which the businessman cannot foresee nor guard against.

Study Needed

Since the protection offered by the bill is primarily designed for small business concerns entering foreign trade for the first time, it is particularly important that non-exporters study this bill and report their views on it and this article represents an invitation to such action.

In the June 15th issue of the MONTHLY BUSINESS REVIEW Henry H. Heimann, Executive Manager of the National Association of Credit Men has made the following thought-provoking comments on this subject:

"Once again, in a desire to help business, legislators are proposing a law, one part of which, in the opinion of informed and practical exporters and importers, may hurt, not help our foreign trade. I refer to that part of the legislation offering export credit insurance. This proposed legislation seeks to protect the exporter against any credit losses that he may incur in his foreign trade. I suppose the legislators introducing this bill do not realize that in private transactions involving foreign trade, credit losses have always been below those experienced in domestic trade. This has been true even though the domestic and export credits were handled by the same individuals. Export business, privately undertaken, is one of the safest businesses to be transacted on credit, assuming naturally, that the terms are sound, a requirement in any business transaction. Why then, one asks, do we need export credit insurance? The preamble of the proposed law suggests this type of legislation will be another boon for small business. As I said in my last letter, I think small business is about fed up with legislative kindness that carries with it the consequences of small business problems, if not its liquidation. Any foreign trader will tell you that up to the war time we always exported to the limit of our available dollar exchange and that we will do so again. What is actually needed to expand our export business is more imports so as to create more dollar exchange. If these are had, then our export business will grow.

Insurance Examined

"Through all our years in foreign trade, export credit insurance has not been needed and most credit executives in the foreign field see no need for it in the future. Let's look at the harm that might come from the normal ballyhoo that would follow such a law. If we want to keep up our foreign trade on a sound basis, we certainly don't want to develop fair-weather foreign trad-

ers, nor what are known as "dumpers", or cut-price sporadic or casual sales for riddance of surplus inventories. What we do need is a consistent, all-weather, good and bad-year foreign trade policy. If a man is not a foreign trader and desires to start soundly, there is available to him or his business, for consultation and advice, any number of experienced export houses and export commission merchants, banks with foreign trade departments, foreign trade associations, and foreign credit departments, and he will find people doing export business not only willing but anxious to help him get established on a sound basis. In addition, his own government's Department of Commerce Field Office will be glad to be of help.

"Credit executives fully informed in foreign trade take comfort from the fact that the proposed law does provide for administration by the Export-Import Bank. It should be noted that at present the Bank will provide financing for the small exporter. Under the present arrangement, the Export-Import Bank is and has been quite helpful to exporters. If, therefore, the export insurance provision is intended as a disguise for a means of financing, it is unnecessary because present facilities of the Export-Import Bank and commercial banks provide for this.

British System

"Proponents of this bill consistently refer to the fact that the British have export credit insurance. That is true, but it should be pointed out that normally only about one-tenth of their credit export business is insured. In addition, their situation is exactly the reverse of ours. Exports in Great Britain are a matter of life and death, so that they must at any and all costs be able to cover their imports. Our problem has been at all times importing enough to cover our exports. There is also available in Canada an export insurance under the Canadian Export Credit Act. It has only been in operation for a year and its activity consists almost entirely of loans to governments. One need only read and study this law with its all-inclusive requirements for qualification as an insurer to understand it is totally different from what our legislators have in mind.

"Every practical foreign trader with whom I have spoken has doubted the wisdom of export credit insurance. They do, however, see value in "exchange insurance", or a "transfer guaranty", but this is a wholly different problem from credit insurance. Credit insurance covers the ordinary hazards of doing business which business men have all along assumed. In extension or acceptance of credits, the business institutions have control over their own decisions. An exchange guaranty or insurance, on the other hand, would cover a risk of a possible governmental action over which business men have no control. That is one of the unpredictable and uncontrollable hazards which will continue until the International Monetary Fund becomes fully operative. If our legislators want to develop foreign trade on a sound basis, let them direct their legislative effort entirely and exclusively to "exchange insurance" or "transfer guaranty". Therein is a field that would be helpful. The proposed bill does attempt this, but couples with it the bad features of credit insurance. Why not draft a bill entirely directed to "exchange" or "transfer guaranty"? That would be a real service to a foreign trader."

The following excerpts from a letter from the Export-Import Bank of Washington to Senator Pepper on June 23, 1945 are informative and worthy of note:

"The Bank has given careful study to the need for export credit insurance in the United States along the lines of the British system and to the manner and extent of the necessary government participation in a system adapted to our own requirements. The Bank's findings do not lead it to recommend that the United States follow the British example of a specially-created government agency to offer both short-term and medium-term insurance against nonpayment by the foreign buyer for any cause. The basis for this position is given briefly below:

1. Protection against the risk of nonpayment by the foreign buyer because of his inability to *transfer* payment in the exporter's currency must be sharply distinguished, with respect both to need and to necessary government participation, from protection against the risk of non-payment because of the insolvency of the foreign buyer or other contingencies involving his *credit*. Furthermore, protection against *short-term* transfer and credit risks requires different treatment from *medium-term* and *long-term* risks.

2. The demand for short-term export credit guaranties in the United States is too small to warrant the establishment of the elaborate organization which would be required under a system operated by the government.

3. What need there is for short-term export credit guaranties can probably be satisfied or eliminated through private action, including (*a*) the establishment of private credit guaranty organizations; (*b*) pooling of credit information by groups of exporters; (*c*) further development of private export credit information services; (*d*) use of the credit facilities of established export houses; and (*e*) improvement of credit management in individual firms.

4. The principal need in the immediate future, as well as in the longer run, is for more adequate facilities to enable exporters of capital goods to sell abroad on reasonably extended terms and to obtain the credit for the credit and transfer guaranties required for this purpose. The resources of the Export-Import Bank should be reserved largely to provide assistance of this character rather than be tied up in commitments to exporters of consumer goods which are sold on a short-

WHAT DO YOU THINK about

Export Credit Insurance? Exchange Guaranty?

Send your comments to Philip J. Gray, Manager, Foreign Credit Interchange Bureau, National Association of Credit Men, 1 Park Avenue, New York 16, N. Y.

term basis with a minimum of credit or transfer risk and which can usually be financed without difficulty through commercial banking channels."

The Bill

Here for your study and analysis is the actual text of the proposed "Export Insurance Act of 1945":

S. 2180

IN THE SENATE OF THE UNITED STATES May 13 (legislative day, March 5), 1946, Mr. Pepper (for himself and Mr. Murray) introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A Bill

To encourage fuller participation by small business concerns in soundly expanded foreign trade and to aid in maintaining high levels of employment and production in the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Export-Import Bank of Washington is authorized through a Foreign Trade Insurance Division, which is hereby created as a division within such bank, subject to the direction and control of such bank, to insure and reinsure either directly or in participation with other insurers, payment of moneys due United States residents or partnerships or corporations organized under the laws of the United States or of goods (including services and charges from foreign debtors for the export sale of goods (including services and charges related thereto) to such foreign debtors.

Sec. 2. There is authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, a sum not to exceed $300,000 for the administrative expenses of such Foreign Trade Insurance Division.

Sec. 3. In addition to the regular capital stock of the Export-Import Bank of Washington authorized under the Export-Import Bank Act of 1945, the said bank shall have an insurance capital stock of $100,000,000 subscribed by the United States. The funds derived from such insurance capital stock shall be used solely to finance the insurance operations of the Foreign Trade Insurance Division. Such insurance capital stock shall be subject to call at any time in whole or in part by the Board of Directors of the bank. For the purpose of making payments of such insurance capital stock, the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purchase. Payment under this section of the subscription of the United States to the bank and repayments thereof shall be treated as public-debt transactions of the United States. Certificates evidencing stock ownership shall be issued by the bank to the President of the United States or to such other person or persons as he may designate from time to time, to the extent of the payments made for the insurance capital stock of the bank under this section.

Sec. 4. (a) It is the policy of Congress that the insured policyholder shall retain a substantial interest in the discharge by his foreign customer of the terms of the contract of sale. In insuring or reinsuring against the risk of nonpayment for any reason other than the imposition by a foreign government of exchange block or other regulation preventing the foreign purchaser from securing dollar exchange to pay his obligation, the insurance written by the Export-Import Bank of Washington shall not extend to more than 90 per centum of the total contract price.

(b) In insuring or reinsuring against the risk of nonpayment by reason of the imposition by a foreign government of exchange block or other exchange control preventing the foreign purchaser from transferring funds to the United States to make the payment due, the insurance written by the Export-Import Bank of Washington may extend to 100 per centum of the total contract price.

(c) As used in this section "contract price" shall include any insurance, freight, or other charge paid or to be paid by the exporter, and charges for services furnished by the exporter as an incident of the export sale.

Sec. 5. The total value outstanding at any one time of insurance issued by the Export-Import Bank of Washington as authorized under this Act shall not exceed five times the amount of insurance capital stock authorized under section 3 of this Act.

Sec. 6. Subject to the limitations provided in sections 4 and 5 of this Act, the Export-Import Bank of Washington through its Foreign Trade Insurance Division shall from time to time determine the conditions under which it will extend insurance, either directly or in participation with other insurers, as authorized under this Act, and shall establish from time to time reasonable premiums to be charged for such insurance. It is the policy of the Congress that insurance or reasonable terms shall be made available to exporters of all the classes of commodities in United States exports on reasonable terms and as expeditiously as possible.

Sec. 7. The authority granted under this Act shall be in addition to and not in replacement of any authority granted to the Export-Import Bank of Washington.

Sec. 8. The Export-Import Bank of Washington shall include in its semiannual report to Congress as required under the Export-Import Bank Act of 1945 a separate section giving a complete and detailed report of the operations of the Foreign Trade Insurance Division created by this Act.

Sec. 9. The Export-Import Bank of Washington shall, so far as practicable, maintain in the major export centers of the United States regional or district representatives who shall be qualified to advise exporters on its policies and practices.

Sec. 10. The manager of the Foreign Trade Insurance Division shall appoint an advisory committee composed of persons experienced in United States export policy and practice. The membership of the advisory committee shall, so far as practicable, be broadly representative of the various types of United States exporting concerns, large and small. The manager of the Foreign Trade Insurance Division shall consult with the advisory committee from time to time concerning the broad policies, programs, and insurance policy provisions of the Division.

Sec. 11. This Act may be cited as the "Export Insurance Act of 1946."

Federal Reserve Continues Curb On Regulation Violators

On June 14, 1946, Federal Judge Ernest A. O'Brien of the United States District Court for the Eastern District of Michigan imposed sentence upon Consumers Home Equipment Co. and Avery B. Chereton, its president, for violating the terms of an injunction issued on July 19, 1945, enjoining them and their agents from making instalment sales of listed articles without obtaining the down payment required by Regulation W of the Board of Governors of the Federal Reserve System. Chereton was sentenced to serve one year in an institution to be designated. The corporation was sentenced to pay a fine of $2500. Chereton's sentence was made to run concurrently with one of equal length imposed by Judge O'Brien in connection with Chereton's conviction for violating OPA regulations.

Judge O'Brien stated in part as follows:

"The overwhelming weight of such testimony conclusively establishes the defendant corporation and A. B. Chereton individually, violated the terms of said injunction in making instalment sales of so-called listed articles without securing the one-third down payment required by Section 4 of Regulation W of the Board of Governors of the Federal Reserve System."

It will be remembered that we reported an earlier conviction for violation of Regulation W in the Detroit area in the May issue.

AN EDITOR VIEWS BUSINESS

Credit and Market Research May Go Together

by C. F. HUGHES*

Business News Editor
THE NEW YORK TIMES

After World War I the peak in labor disputes was registered in 1919 with 3,630 which involved 4,160,348 workers. In 1920 the disputes eased to 3,411, and the total workers involved declined to 1,463,054, or about 35 per cent of what they were at the 1919 top. Incidentally, May was the big trouble month in both those years.

Whatever comes from the labor legislation passed or pending in Congress, it seems safe to assume that the pendulum has stopped swinging to the labor side. Labor has moved into the vulnerable position of Big Business in the nineties, and invites its own Anti-Sherman Law unless it decides to enter the third stage of relations with management, namely, cooperation. Julius Hochman, in a recent magazine article, labeled the three stages as war, truce and cooperation.

First Things First

If I have started off with labor first in talking to you about business, I know you will understand it is for the purpose of taking up first things first. There would not be much use in discussing business possibilities if we are to continue with the production "stop and go" of the last seven or eight months. I suppose the principal thing that has underwritten these disturbances, of course, is the huge backlog of demand, and most especially the assurance that there are means to satisfy that demand.

As far as demands are concerned, we can pass over them quickly, noting merely that they are not only war deprivations, but wants which were built up in the depression years as well. Certainly there are duplications and millions of them, in the items which market surveys have blandly declared were actual sales whenever the goods became available. And most certainly no such actual sales will ever be made unless the formula of "more goods to more people at ever lower prices" finally gets less lip service and more practical work-out on a nation-wide scale.

Money Supply

It is the money to back up consumer demands which is the crux of what shapes up ahead in a business way—current income and savings, and how they will be spent. The disposable income of individuals is lower, of course, than it was in the war years, and the savings rate has decreased. People were saving as much as 29% during the war years, and are now saving only 14%. However, this is still better than the pre-war rate, which was only 10 to 12%, even in years of peak prosperity.

The money supply today, deposits and currency in circulation outside the banks, is three times what it was in 1939 when World War II started. Ordinarily that would mean there ought to be no trouble about the wherewithal to pay for whatever is wanted when it becomes available. That is knowledge which provides the sparkplug of labor action, and possibly has encouraged some producers as well to hold up settlements in the hope of larger profits.

The one little bug in this sure-thing bet, however, is that the question of who owns all this money supply has not yet been answered. If this backlog of potential demand is restricted to a minor percentage of the population then chickens are being counted that won't be hatched.

Who Has the Savings?

On this point let me cite from a recent study issued by the National Industrial Conference Board, titled "Deflation or Inflation?" Dr. Jules B. Backman, of New York University, and adviser to various government agencies, and Martin R. Gainsbrugh, chief economist of the Conference Board, are its authors.

"There is no conclusive evidence as yet* as to the distribution of wartime savings by income groups, or as to what part of these savings will be spent," these experts write. "Estimates of the distribution of wartime savings range from the CIO's findings that the low-income groups benefitted little, if at all, from such savings, to the estimates recently distributed by the Institute of Life Insurance to the effect that 45 per cent of all wartime savings were held by those with incomes of less than $5,000 and nearly 10 per cent by those with incomes of less than $2,000. Another widely cited estimate was recently released by the U. S. Bureau of Labor Statistics. This study, which covered 1,700 consumers in 102 urban communities, found that in 1944 urban families with lower incomes (apparently families with incomes up to about $2,000, or approximately a fourth of all city families of two or more persons) 'accumulated no reserves.' The Bureau of Labor Statistics findings in this survey 'suggest that the total bond holdings at income levels below $2,000 do not comprise much of the backlog to be used for pur-

* Address before the luncheon-forum of the New York Credit Men's Association on Thursday, June 6, 1946.

* Since this talk was delivered the Bureau of Agricultural Economics, US Department of Agriculture, has issued a study on the ownership of liquid assets, a summary of which is printed in the June Bulletin of the Federal Reserve Board.

chases of goods coming back on the civilian markets."

Over-All Theory Dangerous

The point or moral of this quotation is that there is danger in using over-all figures or an over-all theory. They may look good, but sometimes they don't produce the expected results. For example, as long as we are on the subject of money supply, let us examine the argument that you balance the Federal budget, and, like Lydia Pinkham, you cure "all manner of ills."

Well, the budget was balanced in 1920, and surpluses continued up to and including the 1929 crash, and for still another year. The money supply, which is now supposed to be the villain in the inflation plot, kept increasing in spite of balanced budgets, and finally jumped by more than 17 billions. Let me emphasize emphatically that I am making no argument against a balanced budget, and certainly not before a gathering such as this. My remarks are directed only at the Lydia Pinkhams who keep saying that a bottle of balanced budget will cure everything. The answer is: It didn't.

I might quote here from a recent issue of The Economist, very briefly and to wit: "And speaking generally, neither inflation nor deflation is now conceived primarily as a monetary problem."

Supplies Thin

Monetary mechanics are therefore ruled out by this authority. So, returning to the basic matters of supply and demand, we assumed that supply would begin to straighten out once the major labor troubles are over and production gets rolling. But before it does we are promised two or three critical months by Civilian Production Administrator Small, who cites thin supplies of certain materials made scarce by the coal stoppage, the steel strike and numerous other tie-ups. General Motors recently reported a net of 143 stoppages affecting its various divisions.

And coupled with the labor walkouts have been OPA regulations which have switched many manufacturers to making what pays most profit at the ceilings, and not what is in most demand and can't be made except at a loss under the regulations. Let's hope the Price Control Act in its amended form will banish some of the schemes that have only been holding up production and creating the very results which the Act was supposed to prevent.

The combination of labor disturbances and unrealistic OPA regulations has brought about a serious unbalance in supply, rather than over-all shortage. One might imagine that the country's producing machinery was at a complete standstill, according to some versions of the state of affairs. Actually, for the seven months following V-J Day, that is, up to the end of April, the Federal Reserve Index of industrial production averaged 35 per cent higher than it did for the five years before the war. The recent average has been 162 against an average of 120 for the period 1937 to 1941.

Retail Figures High

If additional proof is desired one may turn to retail trade and find that so far this year department store sales have been running 25 per cent above the dollar volume of 1945 and the sales index stands 80 per cent over 1941. Shortages have been pronounced in various departments, but, obviously, the merchandise business is not done with mirrors and there have to be goods to establish the gains.

It is supply unbalance which is furnishing the shortage dramatics. If production is running 35 per cent ahead of pre-war years, with the great automobile industry operating at less than half throttle, or 40 per cent of its 1941 rate, what must some other industries be doing? It was this thought, no doubt, which led Dr. C. T. Murchison, president of the Cotton Textiles Institute, to say last week before a meeting of manufacturers that it was his conviction that the scarcity of most goods is "more apparent than real."

Dr. Murchison, along with several other authorities, recently professed to see a vivid reminder of what happened in 1919 and 1920 in the current situation. While purchasing agents, at their convention in Chicago, admitted that there was a great deal of order duplication going on in the effort to obtain scarce supplies, they also estimated that such duplication did not account for more than 10 per cent of the orders placed. One speaker asserted that the water would soon dry out of order books, once production really got rolling.

1920 Again?

The possibility that 1920 may happen all over again, however, is not too remote, although it may be at least a year away. The same frantic desire to build inventories is present now, and the only feature lacking is the upward surge of prices which shot the wholesale level 22 per cent higher from Armistice Day in 1918 to its peak of 245.5 in May of 1920. But that price rise seems to be in the making now as the wage-spiral begins to really spin.

If the price advance can be kept within bounds until full production begins to bring its corrective in the shape of increased competition, then there are good grounds for believing that a repetition of 1920 may be avoided. The price inflation we have experienced so far has not been so much in actual price as it has been in quality deterioration. Quality can be restored gradually as conditions permit and competition requires. In this way it is possible that the kind of collapse which means tremendous order repudiation and inventory write-downs may not occur.

Business Financially Sound

Another bulwark possessed by business this time is that as a general rule it is well fixed financially. Banks cannot pull the string as they did in 1920, and a more orderly liquidation is possible if it becomes necessary. Still a third reason for believing that we may avoid disaster if developments are favorable otherwise is connected with the distribution of income, lower interest rates, and our improved system of amortizing debt. The question of who owns our huge savings is still unanswered and it may be that we will again see overall parades and protests against the high cost of living. The chances are, however, that the necessities of life will be taken care of pretty well before many months pass, and complaints will be lodged chiefly against luxuries and semi-luxuries. That is not quite so serious, although it may bring nasty set-

backs to business here and there.

Buyer's Market May Be Near

Great numbers of trade buyers are now on hand in this market for purposes of fall buying—or maybe just to find out what they cannot get. The seller's market will still prevail and in checking your accounts you can be just as choosy as the selling staff. But there are some signs, though not too many as yet, that this may turn out to be the last real seller's market. At the recent housewares show in Atlantic City quite a few manufacturers were willing to concede that the buyer would be in the saddle at the next affair. In the soft goods lines production is creeping up. The hard pressed cotton textile lines are able to show an over-all output that is 12 per cent ahead of 1939 and the workers who are now returning to the mills are skilled hands who are replacing the makeshift labor of wartime.

Complaints are usually heard at about this point after a war that labor productivity is in a sad way. I would like to call your attention to the fact that in 1920 some leading industrialists were lamenting a reduction of 20 to 30 per cent in labor's productivity at a time when output per man hour was making one of its sharpest gains.

So it is fairly safe to assume that history will repeat itself, and that improved training, more efficient processes and new materials will be adopted by manufacturers to offset some of the thumping wage rate gains that have recently been granted. Production therefore may speed up faster than some of us imagine and bring an end to the seller's paradise. It will usher in also the time when credit executives will have to harden up their mental muscles.

New Business Report

The Commerce Department has just issued a report upon the number of new businesses started up in the last two years and adds a warning that while the total number of enterprises is not out of line, there are certain fields in which the pre-war number has already been exceeded in spite of war-time mortality.

So for the credit executive there will be a great deal more than routine checking of accounts over the next few years. He will have to study population shifts, the regional trend of industry, the changes in competitive standing, labor stoppages, tax credits and debits, and a host of matters which were almost taken for granted in the easier days.

Because so much depends, in the competitive contest that looms ahead, upon having complete and reliable marketing information, I have often thought that marketing research ought to be closely hooked up with the credit function. The information collected for credit checking is the basic information required for intelligent sales direction and the role of the credit man in the future might well embrace both credit and marketing research. Credit men would not then be known as the "No men" of business. They would also be "Yes men," giving the nod to the sales department on profitable territory and worth-while customers.

Business Intelligence

Of one thing we can be certain, as production expands and competition takes on a keener edge, business intelligence will play just as vital a part in achieving success as military intelligence achieved for our armed services in the war. In place of maps there will be charts of business activity based on the figures of industry and trade. Inventories and prices will be scanned closely for clues to future movements. The reports of salesmen, the comment of customers, all must be studied with unusual vigilance.

For a time we may have a "phoney war," but there is one thing upon which all business men seem to agree. It is that the next competition will be the toughest thing on record—a real business blitz.

It will be hard going, but out of it will come that bigger and still better America which is never content and must always forge ahead.

Georgia Credit Men Elect New Officers

Atlanta: The Georgia Association of Credit Men has elected R. F. Anderson, Westinghouse Electric Supply Co., to be President for the coming year. R. G. Martin, Tripod Paints, Inc., is First Vice-President; E. W. Schilling, The Bank of Georgia, Second Vice-President, and E. C. Becker, Ray Lang, Inc., Treasurer.

All False Matter Sent by Mail Can Be Evidence

by MAXWELL S. MATTUCK

Counsel
FRAUD PREVENTION DEPARTMENT
National Association of Credit Men

There seems to be a misconception of the nature of the violation in cases which have to do with the mail fraud statute as applied to the issuance of false financial statements.

The statute of limitations runs neither—

(a) From the date of the statement, nor

(b) From the date of the shipment of any merchandise by reason of the statement or any reliance thereon. Neither of these elements are controlling.

The mail fraud statute is very clear. It has to do solely with the use of the mails and the statute starts running only from the date of the last mailing of any matter pursuant to a scheme to defraud. Get this clearly: It is a scheme to defraud to procure or attempt to procure merchandise through the means of a false financial statement. In this respect a false financial statement case is no different from any other kind of a scheme to defraud or any other attempt to get money or property by means of false pretense. True, the false pretense in this kind of a case is the misrepresentation of one's financial condition, but that is not the gravamen of the offense. To repeat, this is a mail fraud and the offense is the use of the mails.

It is, of course, the law that the illegal mailing must be pursuant to the scheme. In other words, not every letter sent by a defendant after the issuance of a false financial statement may be a letter which is violating the statute because it may, on the other hand, be a letter which has nothing to do with the scheme. In that sense, if the financial statement itself were mailed, it would obviously be pursuant to the scheme

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WHAT MANAGEMENT EXPECTS

Credit Policy Should be Sound and Workable

by LEO E. CROY

Vice-President
MARATHON CORPORATION
Menasha, Wisconsin

It happens that my assignments with my company have kept me in close contact with our Credit Department and its problems for many years. Working in cooperation with the Credit Department, as a representative of management, I have learned, at first-hand, what the Credit Department can do for management. I have also seen how management's thinking can influence and guide successful credit operations. Therefore, I am probably in position to state exactly what the management of my company expects of its Credit Department.

In order to give you an understanding of our credit problems, I believe it would be well to familiarize you to some extent with the nature of my company's business.

Marathon Corporation manufactures wood pulp, paper, and paperboard, and is a converter of these products, as well as cellophane, foils, etc., which are fabricated into packages and packaging materials for the food industry. A substantial portion of our sales is made direct to food plants and food processors. Another portion of our sales is directed to wholesalers, chiefly paper and grocery jobbers. A third market is corporate chain store organizations. Our markets are varied, and distribution is on a national basis. Currently, we are servicing over 5,000 customers, from very small to very large. They are located in small villages as well as in the principal cities. Our customers could be broken down into approximately 60 major classifications based on the type of products we sell them. Our sales for this year are budgeted at $32,000,000.00. Last year, the total number of our invoices was somewhat over 56,000, for an average of approximately $566.00 per invoice. We have 80 sales representatives, located throughout the United States, living principally in the larger cities.

What Management Expects

With this background of Marathon's business, I shall now outline to you what Marathon's management expects of its Credit Department:

Rule No. 1. To formulate a credit policy, review it as conditions warrant, have it approved by the management, and see that it is executed.

Rule No. 2. To tie in the personnel, policies, and procedures of our Credit Department with those of the Sales Department.

Rule No. 3. To associate the personnel and policies of our Credit Department with our customers and sales representatives on a personal, human basis.

These are the three rules by which our entire credit operation is guided. They are simple rules when stated that way. But it takes constant effort to stick to them and avoid "stretching" them. They are sound rules, and over the years they have proved their soundness in dollars and cents. They are "workable" rules when you have the wholehearted cooperation of the Credit Department, Sales Department, and management, as our company has had it.

First Rule

Referring to Rule No. 1—formulating, reviewing and executing a credit policy—it is necessary that our credit policy be tied in with our sales policy of "Selective Selling." From a credit man's standpoint, "Selective Selling" means inspection of a potential customer and approval by the Credit Department *before* the account is solicited by the Sales Department. We have two good reasons for this policy:

1. It prevents a salesman from wasting his time working on undesirable accounts.
2. It prevents a possible misunderstanding with a concern whose credit situation might be questioned today but perfectly good tomorrow. We want no quarrel with the account which we might have to reject for credit reasons. Constant review by our Credit Department usually detects credit improvement and, from time to time, certain accounts are taken from the "don't-call" classification and opened to solicitation by our salesmen.

Should Keep Informed

The formation of policies calls for the contribution of both ideas and facts by the Credit Department. The credit manager and the Credit Department personnel are expected to keep themselves informed on general economic and business trends. Likewise a thorough understanding of general business problems is needed as a basis for the intelligent execution of policies and for keeping them sufficiently flexible to meet changing conditions.

As to Rule No. 2—tieing in the Sales and Credit Department activities—Marathon's management feels, very emphatically, that Credit Department personnel and policies should be closely tied to the policies of sales and sales personnel. We insist that our Credit Department

policy be "sold" to all sales personnel, to sales managers, salesmen, and sales correspondents—from the top executive to the junior salesman. At Marathon, the two departments are so tied up that three former Credit Managers of our company are now in important sales positions. It is not unlikely that in the future some of our present Credit Department people will also be part of our sales staff. And it is not at all unlikely that we might some day select a Credit Manager from within the Sales Department. There is definitely a close and understanding relationship between the two departments.

Personal Contact

Referring to Rule No. 3—to put credit relations on a man-to-man, personal acquaintance basis—Marathon's management demands that our Credit Manager, and his assistant, be personally acquainted with every sales executive, every salesman, and most of the sales staff of our company. We require our Credit Manager to *know* the industries we serve and to *know* our customers and their problems. This knowledge must be gained by personal calls—by traveling and visits and actual in-the-plant observation. When a credit controversy arises, we expect our Credit Manager to settle it personally, across the customer's desk, rather than by the "remote control" of correspondence. We firmly believe that there is no substitute for this person-to-person method. Our experience proves that when people know each other, there is a good chance that differences can be settled in friendly fashion. Some of our very loyal customers became fast friends of Marathon through friendly settlement of such difficulties.

These are the three points on which Marathon's credit operations are built: first, a sound credit policy, kept fresh and up-to-date; second, close cooperation with all sales and service policies and all sales people; third, sympathetic understanding of the business problems of our customers and a "personalized," "human" handling of credit affairs.

Does It Work?

Now, as practical, experienced credit men, you are probably saying and rightly so: "That's fine. That's a good set of rules. But does it work?" To which my answer is: Yes, it *works*. It does what Marathon's management wants it to do. It gets the results which our company's management expects of the Credit Department, and I'm glad to give you the "proof of the pudding" in the following facts and figures. I shall begin with the year 1939 and review for you our average monthly gross sales, our average monthly receivables, our average monthly days sales in receivables, bad debt losses, and the per cent of our bad debt losses, which are as follows:

Year	*Average Monthly Sales (Gross)*	*Average Monthly Receivables*	*Average Day's Sales in Receivables*	*Bad Debt Amount*	*Losses % of Sales*
1939	$1,069,000	$ 983,000	30.4	$ 8,674	.067%
1940	1,215,000	1,128,000	30.9	19,417	.132%
1941	1,463,000	1,408,000	32.8	23,693	.134%
1942	1,720,000	1,457,000	26.9	14,505	.070%
1943	2,010,000	1,480,000	24.2	(2,092) Credit	
1944	2,302,000	1,496,000	21.0	(1,198) Credit	
1945	2,507,000	1,653,000	20.6	(1,848) Credit	
1946 (6 Mo.)	2,750,000	1,870,000	20.9	(657) Credit	

Payment from 1926 Debts

A very interesting sidelight on the recovery which resulted in the credit to our bad debt account during the last several years is the fact that among the payments that went to make up these recoveries were several payments on accounts originating back in 1926, '27 and '28. These accounts, of course, were outlawed long ago, but several of them have recently been paid up by debtors wishing to clear their records.

A study of the figures on average day's sales and average monthly receivables quickly indicates that had our average day's sales outstanding remained at the point they were in in 1939, our company would have required an additional capital investment in accounts receivable of approximately $1,000,000.

I do not believe we have ever compared our accounts receivable and bad debt losses with other like companies, but because of the very, very small bad debt losses which we have had, we feel this is one of the indications that our credit policy actually works.

The above is a transcript of an address given by Mr. Croy at the 29th annual conference of the Wisconsin-Upper Michigan Association of Credit Men, held at Manitowoc, Wisconsin, on May 1, 1946.

Rhode Island Credit Men Re-elect S. J. Hoffman to Head Association

Providence: At the Annual Meeting of the Rhode Island Association of Credit Men, Sydney J. Hoffman, of the Franklin Auto Supply Company, was re-elected President. Other officers re-elected to serve with him were as follows: First Vice-President, Joseph F. Madden, Nicholson File Co.; Second Vice-President, Emil Doudera, American Silk Spinning Company; Secretary, Rose A. Savage, The Foxon Company, and Treasurer, Warren E. Tillinghast, Providence Paper Company.

Henry T. Farrell was reappointed Executive Secretary of the Association and Manager of the Adjustment Bureau.

Morris Associates Executive Committee Meets at Philadelphia

The Executive Committee of the Robert Morris Associates met recently in Philadelphia to discuss the expansion of their research activities, the promotion of additional Chapters and to outline the plans for membership policy. This association of bank credit men now numbers 530 banks, 1360 individuals, located in 226 cities through the United States and Canada, and represents approximately 75% of the deposits of all commercial banks in this country.

The meeting also heard plans being made by the New England Chapter, who will act as hosts at the Fall Conference of the Associates at the New Ocean House, Swampscott, Massachusetts, September 30, October 1 and 2. Mr. Walter L. Driscoll, a director of the Associates, is General Conference Chairman.

President K. K. DuVall also appointed a Nominating Committee, and the directors set August 30 for the date of the Annual Meeting and election of officers.

THE INSURERS' POINT OF VIEW

Executive Takes Issue with Credit Insurance Critic

by JOHN E. BEAHN*
Sales Promotion Manager
AMERICAN CREDIT INDEMNITY COMPANY
Baltimore

Having just returned from service I do not enjoy the prospect of becoming reacquainted with *Credit and Financial Management* through the medium of a debate. However, there was a note at the end of Mr. Everberg's article in the current issue that "some people may disagree with some of his conclusions. If so, we want to hear about them." I imagine you really do expect to hear and I don't want to disappoint you. Frankly, I believe that Mr. Everberg has been rather unfair in his manner of presentation. I shall not say that he was wilfully unfair. I prefer to believe that lack of knowledge was his undoing. We knew Mr. Everberg as manager of the service departments in Pittsburgh and Cleveland for the London Guarantee and Accident Company. His work there was concerned primarily with the servicing of delinquent and insolvent accounts. To our knowledge he did not act as agent, nor underwriter, nor did he work in the executive office of that company. At the very beginning of his discussion of credit insurance he presumes a premise, introduces an inference, and within the space of three paragraphs misstates a fact.

Premise

May I quote: "When the average credit man feels he needs credit insurance he is usually thinking of some individual credit risk which needs strengthening." That opinion —and it is strictly an opinion—is not endorsed by those who sell this form of protection, by the underwriters in the executive office, nor by those few policy holders who have made definite statements regarding this. A policyholder wrote the following statement which directly contradicts Mr. Everberg's assumption:

"Sound banking principle and practice require adequate collateral furnished by debtors to banks. In our industry and in many others it is not practicable to require collateral for obligations of customers created by sums of goods on open account. Your credit insurance policy provides ample collateral for capital invested in accounts receivable and, also, in many instances for, at least, part of the profit expected.

"While reasonably liberal, we are very careful in granting credit. Information from mercantile agencies and other sources is not always accurate and it is not guaranteed; but by far the greatest danger and most losses result from causes that develop after goods are shipped or were not apparent at that time.

"Some credit loss percentage of annual sales must be expected, but we don't know and no other creditor knows in advance whether it will be ¼ of 1%, 2% or 4% or 5% or more, and there is no way to control this except with credit insurance and that is why we carry your policy. It gives us confidence and release from worry in our credit selling."

That policyholder based his remarks on 15 years' experience as a creditor protected by credit insurance.

We are willing to and we do guarantee individual accounts, but only when we believe they are submitted to us in good faith by the creditor and not because they "need strengthening." Creditors who make a practice of submitting questionable accounts soon learn that they cannot receive consideration of any account.

Inference

Mr. Everberg next infers that general coverage policies are forced on our customers since he refers to them as being preferred by the insurance companies. I think the letter already quoted from a policyholder is sufficient to indicate that creditors purchase general coverage policies not because one or another account "needs strengthening" but because creditors recognize credit risks and wish to protect their resources against credit losses. He next writes, "that a general coverage policy increases the premium." The larger the risk, the larger the premium, is the answer to that—a practice with which he agrees in the paragraph beginning at the bottom of page 13.

Finally, we come to what I refer to as a misstatement of fact: "In the conventional individual debtor policy," Mr. Everberg wrote, "there is no normal or initial loss, though the insurance company fortifies itself somewhat by co-insurance of a greater or lesser percentage according to its judgment of the debtor's financial stability."

We have two types of individual debtor policies. Under the one we insure against loss in excess of a stated sum. In the one is a fixed percentage of co-insurance, in the other the factor of initial loss. Mr. Everberg certainly should have been acquainted with these policies since they have been in use by London Guarantee and our Company for more than 10 years.

Credit Insurance Not New

I shall even question his statement that credit insurance is a relatively new branch. In the catalog of the Library of Congress, under the gen-

* This is a letter written to the editor in answer to the article by Carl B. Everberg on Subordination Agreements and Credit Insurance in the May issue of *Credit and Financial Management.*

eral heading of credit insurance, is a pamphlet printed in 1837. We know that credit insurance has been written since 1888, and have good reason to believe that policies were issued prior to that time. Our own Company is 53 years old, which is a fairly good age for commercial companies in the United States. The London Guarantee and Accident Company has engaged in underwriting credit risks since 1904. I quibble with his statement because uninformed persons reading his statement would have no idea of the historical background of credit insurance.

This historical aspect of credit insurance is also of importance when discussing the insolvency provisions of the policies. If we are to insure against loss both parties must be sure of the definition of that word, so we base loss on insolvency of debtors as defined in the policies. From the very beginning of the business it was the carrier's intention that only those forms listed in the policies would be considered the bases for claims. When the courts decided otherwise in 1900 and 1901 the policies were rewritten to clarify the original intention.

Please note that I use the word clarify, whereas, Mr. Everberg charges that this is a contraction of coverage "by skillful manipulation of words so as to be proof against court interpretations favoring the policy holder." My contention may be verified by examining the pamphlet, "A Novel Credit System" by L. Maybaum, LL. B., of Newark, New Jersey. This pamphlet dealing with the organization of the United States Credit System Company was printed in 1888. Credit insurance companies recognized that delinquent accounts might also be accepted as though insolvent, so the companies added the provision that a past-due account filed before it was more than a stated number of days past due would be recognized as an insolvency.

Majority Advantage

Admittedly, some creditors may not wish to make use of this provision. Others may want to use it generally but be permitted to make exceptions in the case of certain well-regarded debtors. Others might want the period extended to 6 months, 1 year, 2 years, 5 years or any period, but our policies must be practical so the rule of the greatest good for the greatest number must prevail. If, on occasion, a creditor does not wish to file a delinquent account within the specified period of time, but later decides that the account is worthless, he may then create a form of insolvency by instituting proceedings with the cooperation of two other creditors to have the debtor adjudicated bankrupt. Please note that the debtor need not be adjudicated bankrupt but simply that proceedings be instituted.

I hesitate to quarrel with Mr. Everberg on the basis of the 4 court cases cited for the simple reason that I am not a lawyer. May I emphasize, however, that none of these cases was confined to the issue of insolvency, though the manner in which they are cited in the article might lead the reader to that conclusion.

In the first case cited there is the clear impression by use of the words, "recent decision" that the case itself was very recent. That litigation began in 1931, though the final decision was granted only last year. The carrier involved is not now engaged in underwriting credit risks, having retired from this field 13 years ago. The next case (98 Pa. Sup. Ct. 144) was a 1929 case. The other 2 were respectively of 1900 and 1901 vintage. I mention the age of these cases because I wonder why the writer went back so far for legal decisions, yet reviewed loss ratios only for the past 10 years. Why not at least give us the benefit of including the great depression?

Broader Policies Costlier

Possibly, we could broaden the policies, but there would then be a question as to whether the added benefits would apply to the majority of policyholders and thus justify the additional cost to all of them. Let me compare this to life insurance policy: An individual can buy life insurance for the standard whole life premium and, according to the terms of the policy, will be covered while riding in an airplane on a regularly scheduled commercial airliner. If he wishes to engage in flying as a sport, he can have his life insurance protection extended to cover that activity in return for an additional premium. Since most individuals prefer to pay the lower cost even though this means accepting a more restricted contract, life insurance companies prefer to let the broadened provision be available at the option of individuals. On many occasions we, likewise, have extended protection to cover specified additional risks for an additional premium. Like any other business firm we are happy to accommodate our customers and they, in turn, are willing to pay for that service. Surely, we should not impose on the majority of our policyholders an additional premium for an extension of coverage which would benefit only a few.

Insolvency

Next comes that provision of insolvency based on a debtor's business being "assigned to or taken over by a committee, appointed by a majority in number and amount of his creditors." If the committee simply intends to supervise the debtor's affairs, our policyholder again need only institute proceedings. In fairness to other policyholders we should not pay a loss on an account when the creditor himself is willing to continue that firm in business and participate in its management, at least, in a supervisory capacity. The taking over of a business by a creditor's committee clearly terminates the debtor's control of the business, while mere supervision of the debtor's business by the committee is analogous to granting an extension of time for liquidation of the debts. Extensions, too, according to the author, should be regarded as insolvencies and the insurance company should be willing to settle with the indemnified as though the debtor were insolvent. The matter is not so simple. Our policy is intended to secure the creditor against loss If a debtor requests extension, the policyholder has the option under most forms of policies of filing the account before it becomes a stated number of days past due, thus establishing a claim as though the debtor were insolvent.

In our policy of guarantee the indemnified has stated that his terms of sale are for a stated period of time and this is one of the factors considered by underwriters when

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HISTORY AS A CREDIT GUIDE

Economic Cycles Show Warning Signals

by TYLER T. HARRISON, CPA
Manager of Credits and Accounting
MOSHER STEEL COMPANY
Dallas

Today you are no doubt wondering why an accountant should have any views on credit and related problems. I can assure you that credit in all of its varied relationships to stability of the currency, monetary purchasing power, and other economic laws presents a problem not only to yourselves as credit men, not only to the accountant and analyst, but also is becoming increasingly important to the general public as well. Few of us realize the effect upon our own personal lives that changes in the economic structure may create. Too many of us allow the continued evolution of our business cycles to follow along their haphazard pattern without giving serious thought to the ends to which they may channel our economy. When we consider even the term "economy" itself, we think it over and above our comprehension in all of its related elements, but we dare not realize its portent. Today, Gentlemen, we must throw off this surface thinking and dig down deeper into the inner workings of this almost uncontrollable activity which changes the courses of individual lives, of nations, and of the entire world.

Today Is Postwar

There has been, and in all probability will continue to be, much talk of the postwar period. Think with me, if you will, that this period, astounding as it may seem, is not tomorrow, not next year, not sometime in the dim future, but NOW. Today is postwar. Let us then resort to the past experience of this nation in its 170 years of existence in order to form opinions of what may happen tomorrow. Some of you will remember the 20's with their peaks and valleys in prosperity, more of you will remember the 30's with their marked fluctuations in business trends, all of you will remember the 40's because they will possibly see the extreme of heightened purchasing power through a false economic structure which will collapse to leave a rock bottom situation with dissipated markets. Perhaps I am both logical and pessimistic. I do not hold to any New Dealist theories of a matured economy. On the other hand, the pictures of the past may well be the mirrors of the future.

Business Cycles

I point your attention to the cycles of business in this nation during its life. Each major international conflict has created its own prosperity which has been followed by a related decline—related, since usually the higher the rise, the greater the fall. In 1775-76 when this nation was founded, it entered the world on a cycle of depression. The early 1790's saw a change in the economic condition with a short-lived drop in the middle 90's rising to what was then peak prosperity in 1795, which tapered off to a minor depression just prior to the turn of that century. Business continued its uncertainty in rises and declines until just after the war of 1812, when the year 1815 saw marked prosperity.

The first postwar depression was delayed in its effect until some 5 to 6 years after the end of that conflict when this nation was again enmeshed in economic chaos. Cycle continued up and down until the War between the States, when this nation became engaged in its "Brother Fight Brother" conflict. Here, again, a wartime accelerated prosperity was followed by a corresponding decline, but at this time a depression which took effect immediately following the war. Since this was not an international conflict, it is not truly indicative of any trend.

First World War

The next major international crisis of any important scope was the First World War. Shortly after the entrance of the Allied powers into the war, other than the United States, our trend started upward toward an inflated wartime economy. This period of heightened business lasted until the first part of 1919, when the first postwar recession became apparent. It is interesting to note that major conflicts generally bring a period of uncertainty just following their termination which then gives way to a heightened business activity generally coupled with inflation, which in turn gives way to chaotic depression within a year or so following the end of the war.

Turning to our present economic status, let us consider where we are today in relation to the year 1939, one of the last pre-war years. According to a U. S. Government release, the dollar would provide only 71% as much of the necessities of life in mid-1944 as it did in 1939. This trend of dollar value has continued downward, and we now find inflation getting a greater hold on our economy.

Many Factors

There are many factors affecting this inflationary cycle. To name a few: 1. Wartime shortages; 2. Scarcity of materials for basic man-

ufacture, and 3. Labor. These shortages have been blamed on O. P. A. and price control, on unionized labor, and on scores of other contributing factors, while, as a matter of fact, there is no one single cause for our inability to supply current markets.

It should be noted that demand itself has reached an unprecedented level which has been for the most part caused by the inability of production, devoted as it was to the manufacture of weapons of war, to provide the general public with the replacements and additions it required to maintain its standards. This is the source of our pent-up or abnormal demand. Shortages in production of consumer commodities have been the direct result of dissipation of stocks of raw materials plus the complications evolved by an entangled domestic labor situation. The source of supply is still available, but something is lacking in the human element to produce. Today, we have in this nation a greater employment than during the war; the monetary expenditure for labor is greater than during the war, but the slowness of reconversion, coupled with industrial labor unrest, has cut our production to not over 50% of its wartime level. To quote an old economic law, "The demand controls the supply" and the supply is limited by certain uncontrollable factors.

And Tomorrow?

Hence, today we find ourselves paying more for scarce merchandise, which means we are in the throes of inflation. But, what of tomorrow? Today, we have reached the peak of potential purchasing power, coupled with the desire to buy—a peak greater than ever before in our history. Today, we have reached a higher standard of productive capacity which promises greater production. But pent-up demand and increased productive capacity may well prove fatal to our capitalistic system if it is not controlled. On the other hand, if controls outside the realm of economic laws are applied too liberally, it may well foreshadow disaster. I am not an alarmist, but the business of this nation now finds itself on the horns of a dilemma. Which course to take, no one can foretell. For your sake, for mine, for posterity, those who have the choice must choose wisely.

How does this fit into the credit problem? Today orders are being placed rapidly for every known commodity. With accelerated production, a year or two will see the fulfillment of these abnormal demands. What then is the future of our vaunted production? Financial statements showing large inventories of finished goods for which there is no market cannot be the basis for credit extensions, or, in many cases, even sales. Honesty, integrity, all of the high ideals of human character fail when there is no blood in the turnip.

Supply and Demand

True, most of you are Wholesale Credit men, but it must be remembered that in the final analysis the retail consumer demand regulates your markets. A sudden turn of events and the credit man may well find himself involved in litigations, if not losses, of astounding proportions. Let us consider for a moment the connection between overall supply and demand. Demand controls supply and supply in turn controls income of suppliers and labor, which in turn regulates demand. To clarify, I need only remind you that a decreased demand for one product results in discharge of workmen who supplied that product. In turn, these workmen having no source of income curtail their demands for the products of others, causing a reduction in the need at this point, thus reducing personnel, thus reducing demand, thus reducing supply, thus creating a pyramiding and never-ending cycle.

In my opinion, the future requires as much consideration of the employment problem as the present does of inflation. Not only will our economic conditions be affected by these internal workings of industry, but definite results will be seen from the regulation of our basic monetary system. Recently, there has been much discussion of changes in Federal Reserve rediscount rates, interest rates, government loan capacity and retirement, and such other federally controlled factors. These are important from the viewpoint of reduction of the national debt, income taxes required to service the debt, and also in investment return. As you are probably aware, the policy of the Government for the past number of years has been to hold interest rates down. A rise in the rate of interest creates a decrease in banking credit extension and tends to tighten the circulation of capital. This in turn can precipitate a lessening of business activity on borrowed capital with its resulting effect upon demand. These are not isolated and insignificant factors from your viewpoint and mine, since the general overall effect must be a change in the dollar value. This will tend to reduce or increase purchasing power, which is demand. Herein lies a part of the secret to continuing markets, but the danger of creating inflation through the same means must not be overlooked.

Businesses on the Increase

One other point on economics will serve to further tie the credit problem to these activities. The termination of each major international war has seen a marked upswing in the number of business enterprises. These have endured for a while with each succeeding depression having taken its toll. Today, most of you will no doubt agree that new businesses are on the increase. Inexperienced management and poor capitalization promoted by those who are trying to take advantage of a seller's market will inevitably result in business failures when the trend changes to a buyers' market. This alone is an item for much concern on the part of credit men, as it may involve them and their firms in considerable losses. The control and extension of credit is your problem today. You are the guardians—the watchdogs—of our markets. The Accounting profession can only record and analyze your results in the care given to the extension of credit and the control of collections.

The future will undoubtedly see an uptrend in business failures. The records of your Association reflect such trend. It cannot be other than inevitable. We face uncertainty, perhaps economic chaos greater than that of 1933. We face losses which if not controlled may well be fatal to our enterprises. No one can foretell the collectibility of any account on which credit may be extended. It gives me personally a great source

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SMALL BUSINESS LOANS

How One Bank Plans To Set Up Such a Division

by **ARTHUR L. PETERS**
Vice-President
FIRST NATIONAL BANK
St. Paul

In recent months considerable discussion and publicity have developed on the subject of bank credit for small business. Most of us agree that, if small business is to survive, and is given the opportunity to grow and prosper, adequate bank credit must be available to meet the needs in the period ahead. It is not intended to create the impression that banks have completely ignored the small business; as a matter of fact, in 1940, the last full year of peacetime operation, the banks of the country made more than twenty-four million loans, the average new loan being approximately $1,700.00. The figures indicate that small business has in the past received some support from banking sources, and if each individual bank were to make a complete inventory of all of its loans, the number of small business loans included in the list would be surprising.

Plan Necessary

There seems to be no doubt but that some plan should be devised to assist small business financially. While it is true that the average legal limit of banks throughout the country is very low, and the capital structure varies considerably, we all have a job to do regardless of our size, whether we are in a small town or in a large metropolitan center. The plan referred to particularly should include loans for the purchase of various types of equipment, which will range on the average from $750.00 to $2,500.00. In the smaller banks this type of lending has been prevalent over the years, but in the medium and large banks, with some exceptions, there probably is room for improvement. The small business man as a rule hesitates to discuss his problems with the big banker because he is fearful that the amount of money involved is too small for consideration, and the question of what he has to offer as collateral to secure the proposed loan is a perplexing one. If, however, the small business man were assured that he would be granted sufficient time to present his problem to certain designated officers, without embarrassment to him, it would go a long way to break down the false impression he has of big banks. As a matter of fact, the banks would be helping themselves by indicating, through the various forms of advertising reaching the general public, a definite willingness to be helpful.

In our Bank we have for several years operated a Budget Loan Department, wherein we have always made small loans to small business. However, we have for some time been reviewing the situation locally, and after considerable study, we decided to set up a special division for the handling of loans to small business. The division will service small business loans of the type just discussed and which are now handled by the Budget Loan Department, and we propose to go a step further by experimenting with the so-called marginal credit involving small business loans up to $25,000.00 or even $50,000.00.

New Fields of Lending

We maintain that in the field of banking as well as industry, it is desirable that some experimentation and research be conducted, and in the banking industry that may mean pioneering, in a very small way, new fields of lending. Term or semi-capital loans in amounts from $5,000.00 to $50,000.00 are a case in point. Manifestly, if additional risks are to be assumed, it should be only by banks which have, or set up, adequate reserves, and even then the exposure should be kept to modest limits.

The administration of the Small Business Loan Division is charged to a committee consisting of several Vice-Presidents, Assistant Cashiers, and the Cashier. All such loans will be concentrated under one control, and, with a special division giving exclusive attention to this one phase of banking, the study of results will be simplified and the credit policy made uniform. It hardly seems necessary to point out that, without a special division, the prospective borrower would be pushed around, so to speak, since small loans would not be attractive to certain bank officials, the necessary follow-up terms, rates and policies would vary, and there would be a very definite lack of uniformity. The division has been in operation only a very short time, and, therefore, we have nothing to offer based upon our experience. There is nothing unique about the plan and we do not want to leave the impression that we are opening up an entirely new field of lending.

Borderline Loans

This new effort on our part, therefore, represents a departure only in degree. It represents a conscious effort not only in the direction of being more aggressive in seeking out borrowers, but, what is perhaps more important, is an experiment in a modest way in making loans falling

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FINANCING SMALL BUSINESS

New Thinking Developed by Post-War Needs

by **RAY F. WILLE**
Manager, Sales Promotion— Time Credit Division
First Wisconsin National Bank of Milwaukee

Three things happened in January, 1946—each isolated and apparently of only local importance—but of great significance to America when brought into one sharp focus.

In California, Nic Sanders walked into his bank and said: "I need $2,600." He wanted to equip a small plastics plant and start a new business. He was a competent and experienced plastics craftsman honorably discharged from the Army. But aside from good character, plenty of ability, and a sound idea, he had nothing to offer as security. The local bank made the loan.

In Maryland, on a Friday night a local business man called his bank and said: "I need $60,000 fast." The amount needed was four times the bank's legal lending limit. The banker called his city correspondent, who took a train that night, examined the property and the proposition over the week-end, and agreed to cooperate in the loan. The local bank and its correspondent made the loan on Monday.

In Wisconsin, a trucking company called the bank and said they needed two additional trailers to handle the growing volume of business. The trailers were priced at $6,500—but the company could invest only $2,000 without impairing working capital. The local bank financed the balance of $4,500—repayable in twenty-four monthly installments.

Team Play

The significance of these three events is that America is now witnessing the greatest team play in financial history. Fifteen thousand banks—each a separate organization operating in our free enterprise economy—have bound themselves together with this pledge: "Bank credit shall be made available to every competent, reliable person, firm or corporation for any constructive purpose." That is the pledge of banking to American business. In one sense this is merely enlightened self-interest, for banks can prosper only as business prospers; but in another sense it is a pledge of faith in the American system of free enterprise and initiative—coupled with the basic knowledge that this system can be vigorous and healthy only as small business is assured a fair chance to survive and succeed. Behind this pledge is the resolve of American banking that "if the individual bank cannot grant the credit, the bankers will stay with the applicant and see that he gets the money from some other bank or group of banks." Banking will see that small business lives and is given the opportunity to grow and prosper.

The Story

Now behind all this lies a story, and I believe it is one that is of vital interest to you as an individual and the future of your business. Back in the tense war days of 1943 banking was concentrating on helping win the war. The day would come, however, bankers knew, when the scene would change. There would be peace, millions would return from war and want jobs, the demand for peace-time goods would be huge, business would be called upon to convert, expand, produce, make jobs, develop new ideas, and supply an endless stream of new and better products. Business in short was the nucleus around which our post-war hopes would revolve. The story that I am about to relate to you has recently been published by the Small Business Credit Commission of the American Bankers Association, and the story covers the work of this commission in the last two eventful years.

From a century of close cooperation with small business, banking has long since learned the importance of the "little fellow" in our American scheme of things. The small store, service organization, or plant is the place where tomorrow's big business is born. It is the seed bed of young thinking, the place where American initiative and enterprise take root. Small businesses, according to Department of Commerce yardsticks, number 92.5% of all businesses and employ 45% of all workers. But no matter how you measure them, small business concerns form a big, vital part of American business.

Idea Not New

Now, of course, this active interest in making loans to small business is not a new development in banking. An analysis of business loans made by 5000 banks (one-third of the banks in the country) in the last full year of pre-war peace shows that these banks alone extended credit to 24,000,000 business borrowers. The total was $39,000,000,000. A bit of simple arithmetic reveals that the average loan was $1,600. That figure alone, $1,600, reveals the fact that banking has always been aware of the needs of small business. The big difference today is chiefly an intensification of that awareness plus an active effort to develop new lending techniques to meet current and future needs.

Most banks, like most businesses,

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IS CREDIT UNNECESSARY?

The Post-War Boom Won't Last For Ever!

by CHARLES FORWARD

Special Writer

There is in certain industries and business organizations a movement under way to reduce the functions of credit, to minimize the quality requirements of credit management and to treat credit as an evil which grew in business during hard times or periods of excessive competition. There exist today men who feel that in many businesses credit is absolutely unnecessary and should be eliminated. It is difficult for a credit man to write or talk about this subject without being accused of being prejudiced or, at least, having selfish thoughts in the matter. While I do not believe these accusations are necessarily true, I will not deny either of the charges. The important thing is that this is not merely a case of the credit man and his job but it is a problem, a real problem, of business management. Certainly, it is true that both sides of the story should be told, and should be heard by the impartial men who are charged with the final responsibility of management.

How Did It Start?

Let us analyze how and why this feeling started and grew in the minds of certain men. You may say that's easy; there was the war, not enough production to come anywhere near to supplying the demand. Everybody willing and able to "lay it on the line" to get merchandise, old established dealers paying COD without complaint. If they could do it then, they could have done it before and they can do it in the future. Then they say, "Remember the depression, how credit was abused. Everybody and his brother was in hock. Businesses failed because they couldn't collect their receivables, mortgages were foreclosed, banks failed, and compromise settlements had to be made. Let's not have it happen again."

Picture a sales manager saying, "I won't take any business unless it is on a cash basis." "Why should I sell for credit when there's more cash business around than we can supply?" Boasting about how so and so, who has more money than he knows what to do with, laid it on the line when he told him he couldn't supply him unless he paid cash. This is the same sales manager who, when he awakens in the future, will be pleading for credit and—maybe when it's not justified.

Some Men Cautious

Somewhere along the line is a business man who is conducting his affairs with moderation and as near to normalcy as possible. He is administering his affairs with caution and accepting normal business risks. He's getting into position for the future, when he can pick up the marbles. Whose marbles?

Don't bank too heavily on the thought that the American people have short memories, or, even if they do remember, that it's wise to plan for a long future.

At a recent sales meeting, I heard a sales manager picture eloquently a rosy future. With optimism he pointed to the coming business boom. With charts he displayed how the business was to be increased. Sales evangelists told of the merits of the product, the prestige of the company, the respect of the trade and the goodwill of the name. Executives told how the Country was caught unprepared at Pearl Harbor and that this was not going to happen to this company. They were increasing their sales force and training them so that they could get their share of this business boom. Radio and newspaper advertising men spoke; it was an enthusiastic gathering.

Credit Not Mentioned

At no time in this all-day session was credit mentioned or even referred to. Why? Because it is not considered important enough, or because it is not a subject to talk about or because it is not going to have any part in the future business boom? The men who don't believe this about credit are going to be just as prepared or even better prepared to handle their future business on whatsoever basis it is secured.

Even the optimistic sales manager had a date in his mind when the boom would end. At sometime in the future, these pent-up savings would be spent and supply would catch up with and even exceed demand. Will he be just as prepared for this period as for the boom?

The company that administers its credit policy without fear of boom or bubble will endure and prosper, and the credit man who takes his work seriously will, with his usual judgment, continue to extend credit where credit is deserved. There is a final thought to be ever mindful of: Regardless of times, regardless of conditions, regardless of market, and regardless of your product, you can always sell more with credit, and to sell more means to make more. . . . What else are we in business for?

Los Angeles: Los Angeles Herd No. 1, Royal Order of Zebras, held its last meeting of the year on Friday, June 21, at the Rodger Young Auditorium.

The program was an elaborate one—food, a show and indoor sports.

CREDIT MAN AND SALESMAN

They Should Know Each Other Better

by MATH T. LAUER
Merchandising Manager
McKESSON & ROBBINS, INC.
Milwaukee

Sales and credits go together, hand in hand. Both departments can build good will for any company and the Credit Department, at all times, must carefully consider the problem of goodwill. That is why there must be such close cooperation with the Sales Department; and it is necessary that the Credit Manager, in order to cultivate goodwill, must cultivate the salesmen and the entire staff of the Sales Department. In that way, he can help solve some of his own problems and have a better understanding of the sales problems. He can also build greater goodwill rather than tear it down.

I believe it is necessary that the credit man be a realist. There are no two cases that appear alike, but each case must be considered on its own merit. There are many questions for a credit man to answer: Can the customer pay? Has he good character? What are his personal habits? He must be able, from the information received from the salesman on the territory, to form his own opinion.

Salesman's Judgment

A good salesman should be able to judge the little weaknesses of his customers so that he can carry that information to the Credit Manager, who will not antagonize the customer.

Remember, the salesman can give information to a Credit Manager that will never appear on any credit report, but also remember, in the end, it is the opinion of the Credit Manager that must prevail.

Many difficulties arise between Sales and Credit Departments, through the lack of understanding. Many top executives have failed to do a job in this respect. The objective of any business is profit. If everybody concerned with credits and sales is given that to understand, and if the decisions for both the Credit and Sales Departments are made with that fact in mind, much trouble can be avoided.

In order to favor certain accounts, it is very true that often salesmen come in with a biased report to the Credit Manager, but from past experience, a good Credit Manager can easily weed these reports out and make up his own mind as to what is truth and what is fiction. This can be done with personal conversation with the salesman or Sales Manager, and if these two departments realize the need of each other, I think much strife can be avoided.

Sales Managers' Opinions

Recently I interviewed seven or eight sales managers and asked their opinions on sales and credits. I am going to give you a few of their opinions for what they are worth.

One gentleman stated—"The credit policy of the company should not be changed to the individual customer. A salesman should be kept informed of what action the Credit Manager contemplates taking on certain accounts, instead of merely writing a cold-blooded letter to the account, which is past due."

Another fellow states—"It is just as important to sell merchandise as it is to collect money, and the success of the Sales and Credit Departments is a give and take proposition. The salesman should be made to work with the Credit Department and, if properly approached, usually does. If there is any doubt in the salesman's mind regarding the ability of his account to pay for the merchandise bought, he should find out from the Credit Manager the limit of this account. The salesman should also advise the Credit Manager if there is a change in the dealer's set-up, so that the Credit Department has a picture of this change. Remember, salesmen like to get business."

Cooperation Essential

Another gentleman says—"Credit men should be sales-minded and cooperate with the Sales Department. Both departments are necessary for the good of the business and without the cooperation of both, no business can rightfully survive."

These are just a few of the many remarks I received, but my personal opinion is that the Credit Manager should, at all times, be kept fully informed by the salesman, through the Sales Department, of what the conditions are in each man's territory. The Credit Manager can be a big help to the Sales Department if, at the end of a monthly period, he advises the Sales Department of accounts that are not paying promptly, or whose purchases are slipping. That is the time for a check-up by the Sales Department. We all know when an account becomes delinquent, he buys goods elsewhere, so we all suffer.

Attend Sales Meetings

I personally believe that a Credit Manager should attend sales meetings. In that way he creates contact with the salesmen and it gives him a knowledge of sales and sales methods. That brings about friendly understanding of each other's problems.

I believe that a Credit Manager

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Small Business Loans

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in that borderline area, where in the past, we have either declined loans or have been lukewarm in making them. In many instances it means crossing the borderline into what we, in our institution, have heretofore considered as slow or sub-standard loans. In the past, bankers have all had the experience of making business loans which they originally thought would be short and self-liquidating, based on the long-time tradition of thirty, sixty or ninety-day terms, only to find that, due to changed circumstances, such loans stayed with them for protracted periods rather against their will. We are now proposing to take on a certain number of relatively small loans that we know in the first instance will be slow in character, to which we will apply the term loan principle, whereby the term will be set according to the borrower's ability to pay.

There is no hard and fast rule as to what constitutes sub-standard loans. Loans that some banks might consider sub-standard and undesirable might not appear so to others and vice versa. In talking of sub-standard loans, we are thinking particularly of loans which can be repaid only out of future earnings or by forcing liquidation, or at least a drastic curtailment of the business. There are other types of sub-standard loans, however, such as new ventures, certain management deficiencies, and probably one-man management might also be considered unfavorably.

High Standards—Low Costs

The experience of bankers through the decades tells them infallibly that, if they lower the standard of their loans, both the cost of servicing them and the losses are almost certain to increase. Unfortunately, as there is no absolute criterion of what constitutes a sub-standard or marginal loan, neither are there any definite data available as to what losses may be expected on a group of sub-standard loans. We doubt very much if we can demonstrate much of anything so far as loss experience goes on such loans until we have carried a block of them through the low point in the business cycle. We expect that we will have reasonably satisfactory experience with them while business remains active. It is in a period of business stagnation and falling prices that sub-marginal loans are apt to confront the bank with the disagreeable alternative of either closing out the borrower (with every attendant loss to him and perhaps some loss to the bank) or making additional advances to keep the enterprise afloat.

In this connection, we think it is well to bear in mind the difference between two general types of loans, both involving something more than normal losses. Installment paper, for example, generally speaking, involves a larger loss than is experienced on commercial or collateral loans. We think most of us would agree that installment paper can be safely and properly handled by banks for the reason that experience shows that losses are reasonably predictable over a period of years, and the rate of interest obtained is sufficient to permit of adequate reserves being set up for the anticipated losses. On the other hand, a banker is confronted with a much more difficult problem in considering loans to small business which are of a capital nature or are otherwise sub-standard, as the loss experience is not likely to average out from year to year but, as before indicated, will probably concentrate in the declining years of the business cycle. We think an analogy illustrates this point. The fire and casualty insurance business can be operated safely with annual anticipated losses running from 30% to 50% of premiums, and the variation from year to year is not very large. However, when the casualty companies moved out of the field of fairly predictable losses in the twenties and undertook mortgage and other financial guaranties, they found that the very good experience prior to 1929 was followed by catastrophic losses after 1929. In this experiment we are going to try to demonstrate whether the loss experience of the familiar type of semi-capital or marginal loan can be improved by:

1. The application of the installment or term loan principle.
2. The setting up of proper records to ascertain costs.
3. Reviewing with management at frequent intervals both balance sheets and operating figures.
4. Discussing and advising with management on matters of general policy.

Rates for Risk Loans

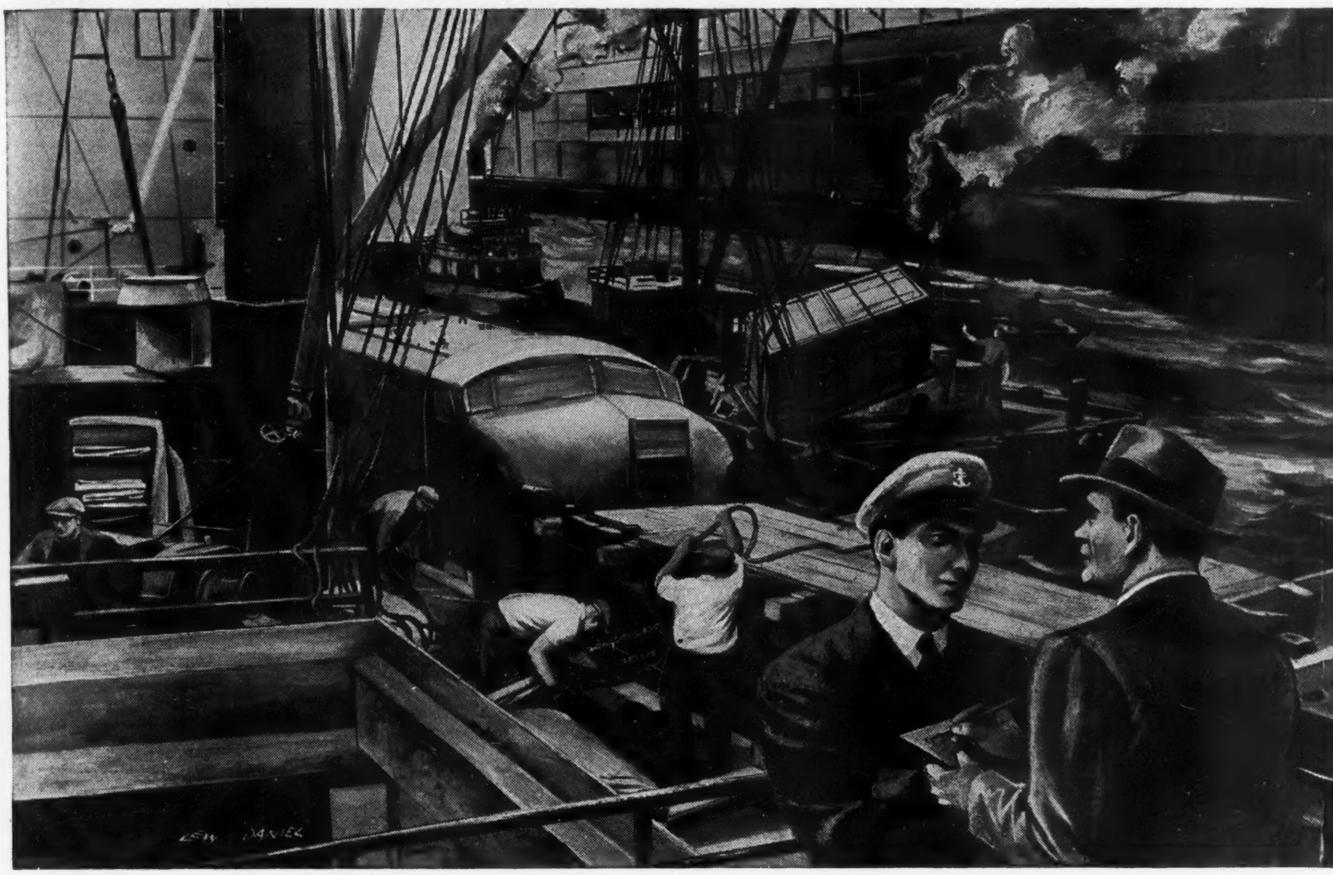
One difficulty which banking institutions face in entering a field of lending which may involve more than normal losses is that the banks under competitive conditions, and being sensitive to public opinion, find it difficult to charge sufficiently high rates on risk loans to permit of setting up adequate reserves for the additional risks. The insurance companies have their rating bureau that can determine that the risk on a fireproof building is only a small fraction of the rate on an inflammable one. Once bankers, and particularly city bankers, decide that any enterprise is creditworthy, there seems to be the tendency to bring the rate steadily downward. For instance, there appears to be a definite tendency on the part of banks engaged in the field of installment lending to reduce the rates below what time and custom have demonstrated are necessary. The same thing is evident in the field of term loans, which have had such a vogue in the banks in recent years.

Nevertheless, in spite of these reservations and qualifications, we are proposing in our bank to do some experimenting in the field of small business loans, with the full knowledge that many of them will be slow and sub-standard.

Reasons

The reasons that have prompted us to do so could be summed up as follows:

1. The officers and staff of the American Bankers Association have very forcibly brought to our attention that banks must attempt to enlarge their field of lending or see the further intrusion of government lending agencies, with all that im-



plies to the banking system and to the private enterprise system generally. We have become convinced that a bank, and particularly a metropolitan bank, which is enjoying satisfactory earnings, ample reserves, and which has a relatively small amount of loans, can properly experiment within definite limits with borderline or even sub-standard loans to small business, and by so doing gain some valuable experience and perhaps form a useful service to its community. On the other hand, it is perfectly obvious that to go beyond a certain point with such experimentation could only be regarded as dangerous banking. We may not be able to accomplish very much or demonstrate very much, but we will feel better if we try.

2. As a by-product and probably an afterthought, we think it is going to be a good training for our junior officers, who in originating and servicing these loans will get valuable experience. With the relatively small volume of loans in recent years, we have found it difficult to give our junior officers sufficient lending experience and responsibility.

3. If our program meets with any fair measure of success, we hope that later on we may be able to give our country bank correspondents the benefit of our experience and provide them with some useful service in that connection.

4. A few are of the opinion that many small businesses that fail could be made successful by advice and assistance provided by the bank's officers. Unquestionably something can be done in that direction, although an equally good case can be made for believing that the advice of a bank to its customers should for the most part be confined to suggestions within certain limited fields, such as accounting. We are fearful that the attempt of a bank to substitute its judgment of the borrower in matters of production, engineering, and sales is fraught with danger, legal and otherwise.

Borrowers to Be Screened

We are inclined to doubt that the type of lending under discussion will be profitable to the bank, since, on account of both public relations reasons and possible government competition, it will be inadvisable to attempt to obtain a rate of interest which will fully compensate for the large amount of executives' time required and also provide reserves adequate to protect against the inevitable losses.

So long as our experiment is directed primarily in the public interest and not essentially for profit, it follows that we will make a special effort to aid small businesses that are developing a new or improved product or service, as that is the dynamic element in our economy. These are more difficult loans to make and apt to be less well secured than certain other types. No doubt, the larger number of our applications will be from businesses which are retail outlets, and we will, of course, give these fair consideration. However, because the multiplication of retail outlets does not usually create additional employment but merely redistributes it, we do not feel that we should strain as hard to make loans in the field of retail distribution as in the case of businesses of the type first mentioned, which create possibilities of new demand and additional employment.

Loss Reserves

The one point on which we would like to place strong emphasis is the matter of loss reserves. Our plan provides that there be set aside from our general contingent account a special reserve based on a certain percentage of the original face amount of all loans as a pooled reserve for losses. To this is to be added one-half of all interest collected on the loans. It is our feeling that this reserve should be of substantial proportions because of the risk involved, and the amount of the reserve may be adjusted from time to time as we gain experience. It must be remembered that this is only an experiment on our part, and we feel the reserve should be a liberal one, as we believe the loans will in large part be of the borderline character. At the time this plan was originally considered, we concluded that it would be necessary to take a rather broad-minded viewpoint, resulting in a study of our capital and reserve position. Having a satisfactory reserve position, we decided to set up the plan only on the basis of making a proper allocation from our present reserve.

We have not attempted to place a limit on the aggregate of these special loans to small business. As the majority of the loans will be small, very few over $25,000.00, and as they will normally be on a reducing basis, we do not anticipate that the total will create any problem for us. However, if we do find that as much as 10% of our capital is involved in such loans, we would take a careful inventory of the situation before going further.

In conclusion, the program we now have in operation is a modest one confined to our own organization. The plan has been in effect for only a short period of time, and, therefore, our experience has been very limited. It seems clear to us that every bank, first in its own interest, and secondly for the good of the banking business, should try to make certain that every small business customer receives painstaking consideration when he applies for a loan and that no loan which can properly be made by a bank goes to other types of lending agencies.

History As a Credit Guide

(*Continued from page 15*)

of pleasure, a feeling of security, to know that behind me ready to serve when the need arises are the Adjustment and Collection Departments of the Credit Men's Associations. The service that they have rendered me, they are willing to render you. What the future holds, no one can foretell. What the past has given, each man remembers and some men regret. These are among your most valuable tangible and contingent assets. The help you give them today may well be as "bread cast on the waters" which will return to you in service of many times greater value. This is your obligation to yourself, and to your company. We must maintain these Departments now in order to have their service in the future.

In conclusion, the picture I have painted is not a pretty one. It may not even be as rough in the days ahead as I have told you. I hope not.

Financing Small Business

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are small. Actually only a handful of banks can be termed "big," and these are centered in a few large cities. The other thousands are scattered all across the land, each the center of financial life in its community, each deeply interested in the success of local enterprise. Out of the approximately 15,000 banks, over 12,000 of them have a capital and surplus of under $250,000.

New Thinking Needed

Despite the fact that banks have always financed small business, it was recognized that new thinking would be needed to meet post-war credit needs. No longer could the traditional three C's of credit—character, capacity, and collateral—be applied as the test of soundness in making loans. The war had brought many changes—the post-war world would bring many more. Equipment was wearing out, stores and plants were deteriorating, inventories were being depleted. Men by the thousands would return from military service eager to go into business, but having little capital or credit standing. Yet America would need small business as never before. There would be new ideas and new enterprises anxious to get going. New businesses would be needed to fill the gap caused by a shrinkage of 500,000 in the number of small concerns during the war.

Banking's job was two-fold. Simply stated there were two things that banking could do to gear itself for maximum service to business: (1) make sure that existing credit facilities would be used with full efficiency, (2) create new credit facilities to meet new small business needs. Both objectives demanded fresh, clear thinking on the part of bankers everywhere. It would be necessary to shake off the narcotic effects of Government guarantee, it would require a return to the risk business, a rebirth of basic bank-lending principles.

Government Competition

Another factor was apparent—the threat of additional Government intervention and competition in the making of business loans. Some bankers were deeply disturbed by this threat, others saw in it a constructive side: it would goad many bankers to aggressive action, which would benefit everybody. At any rate, it was apparent that Government through its 45 or 46 credit agencies and through new ones that might be created was ready to step in and try to finance business. This was no problem that individual banks here and there could hope to solve. It was a challenge—and opportunity—for all banks to meet together. The scene was national, the action must be national. It was a job for organized banking—the American Bankers Association, the state associations, the Association of Reserve City Bankers—to tackle together.

Five-Year Program

In April, 1944, the American Bankers Association Executive Council approved the creation of a post-war small business credit commission. A five-year program was contemplated, and the $750,000 needed to underwrite it was pledged voluntarily and spontaneously by over 4,000 banks of all sizes. If there were any doubts that banks wanted to finance small business, they were dispelled by this united action. The first thing the commission members did was to survey existing bank credit facilities. They found that war, and before that defense, had absorbed the attention of bankers everywhere. They needed to be brought up to date on changes that were taking place in the economic picture. They were eager to know about new conditions, ideas, techniques, and theories in the small business field. So the commission started a program of information for bankers which will continue as long as the need exists. Acting as one big team the banker members of this commission, the staff of the American Bankers Association, and cooperating individuals and committees in the state associations, county groups, Association of Reserve City Bankers, and individual bankers everywhere have pitched in to get the facts. Excellent cooperation has been had throughout with the Committee on Economic Development which afforded valuable contact with the present thinking of business, especially small business. Research has been started in the internal operation of banks to find new ways to meet new conditions. The Commission has become a central clearing house for all this body of information—and more. It has carried and will continue to carry the story right to individual banks—by meetings, speeches, printed word, and every other avenue that presents itself.

Principles

Some of the principles stressed by the Commission in the past eighteen months have already become part of the small business lending pattern. They are:

1. Competence is collateral. Banks know from years of experience that John Doe—private citizen—is the world's best character loan credit risk, and banks know that the competence of John Doe, President, or John Doe, Inc., or Doe and Roe, partners, is first-class security for small business loans. They have been lending on that basis for years; they will continue to place their faith in the fact that here in America competence is collateral.

2. Term loans are sound bank loans. Here again banks have been doing it for years, but banking's experience with term loans for business has been limited and this specialized type of lending has been generally confined to larger banks. The Term Loan, which is defined by the Commission as "a business credit with a maturity of twelve months or longer and with a definite program of payments based on operations" will be the answer to many small business credit problems in the coming era. A manual on term loans was prepared by the Association of Reserve City Bankers and distributed to all banks by the Small Business Credit Commission. Through this and other informative material, banks are fast learning how to apply the term loan technique to small business credit problems. The Commission is working with bank examiners and regulatory authorities to assure their cooperation in this and other parts of the small business lending program.

3. The loan should fit the need. It is good merchandising to have a variety of loan services available to meet varying small business needs. The commission has undertaken a continuing study of all the types of business loans banks can make. Accounts receivable financing, field warehousing, inventory loans, trust receipt loans, and various types of installment loans have been carefully analyzed. Suggestions and recommendations in manuals and other forms are being relayed periodically to banks. The underlying spirit of this phase of the work is to be progressive and flexible, to adapt ourselves to new conditions, to have loan services that will meet every business need.

4. Small business requires special attention. As part of its program the Commission has been urging banks to set up special facilities for small business. This recommendation is for larger banks, because in most small and medium-sized banks the whole institution itself is a special facility for small business. Where possible, larger banks are urged to recognize the importance of small enterprises by setting up special departments with qualified officers and personnel devoting full time to this bank service. Scores of banks have already opened Small Business Departments. In other banks there is still plenty of room for greater awareness on the part of the staff of the bank's Small Business services and their importance. This internal educational work is being encouraged.

Correspondent Banking

The Commission also found that correspondent banking had a major role to play in the financing of small business. More study and attention have been devoted to strengthening and improving correspondent banking in these recent months than ever before. Everybody realized that post-war small business would have special credit needs. In many cases the local bank would be unable to handle a loan because of size or for other reasons. All too often loans of this type have been going to Government agencies or other lenders by default.

In the correspondent banking setup the answer to many such credit

problems can be found. Here is a national network of hundreds of city banks and their thousands of country correspondents. The machinery has long been in existence and in the war performed valuable service for the country. The Commission undertook the task of adapting correspondent banking to the post-war job of financing small business. City banks called their correspondents in for meetings, arranged other meetings in various local areas, and began programs of systematic visits to individual country banks. Through education and cooperation the special "know how" possessed by big city banks in the realm of business financing is being conveyed to smaller banks. Banks everywhere are learning more than they ever knew about the facilities and services of their city correspondents.

On the other hand, small banks have been able to contribute much "grass root" type of information that the larger institutions did not possess. Banking has benefited by this new spirit of cooperation and, above all, small business has been better served.

Program in Wisconsin

I believe at this point it would be pertinent to call your attention to the progress of this program in Wisconsin. Even before the American Bankers Association formulated its national plans, the Wisconsin Bankers Association—as well as many Wisconsin banks individually—were giving serious thought to small business credit needs (including, of course, the credit requirements of that very important essential business man, the Wisconsin farmer). Moreover many Wisconsin banks have been active for some time in developing and offering new flexible loan plans to assist the smaller borrower. In order to give you a concrete example I would like to briefly outline the program of the bank with which I am associated. We formally announced our "Installment Credit Information Service" to correspondent banks about one year ago. Through this service we hope to share our experiences and specialized knowledge with all of our correspondents. This service will include factual information on direct installment lending. We have already prepared several operating manuals keyed to Wisconsin conditions, Wisconsin legislation, etc. We have also furnished specimen forms for all types of installment credit transactions and have made these forms available to our correspondent banks. In other words, this service was designed to help the correspondent banks in providing all of the necessary credit, regardless of amount or type, to every individual, firm, or corporation in their community; and it will continue to be our basic policy to help develop local business for our correspondents whenever possible (and whenever this type of business is desired). Through this mutual cooperation we have been able to extend necessary credit to many small businesses throughout the state. For example, a small manufacturer was short of working capital to finance an increased volume of business. Judged on the basis of a conventional unsecured commercial loan, there was no way his bank could safely help him —but his problem was solved by his bank nevertheless—through a term loan secured by income-producing equipment and repayable in twelve monthly installments. A small wholesaler needed funds to carry an abnormal peak in accounts receivable—actually he came to the bank just to seek advice, knowing that his financial statement would not qualify for the loan on a conventional basis. It was possible, however, for his bank to solve his problem with accounts receivable financing. I could cite many other examples but these will suffice to support the point I am trying to make—namely, there is an ever - increasing tendency among bankers today to look for and work out new ways of solving credit problems whenever such problems do not obviously fit into the pattern of conventional single payment loans.

Socialized Credit

If you will permit me to digress for just a minute, I should like to call your attention to a world-wide trend that is slowly and insidiously creeping its way into our democratic way of life. I am, of course, referring to the trend of socialization. Thinking bankers are aware and alarmed over this trend toward socialized credit and its threat to a free, competitive economy.

Not so long ago the Socialist Party in England won by a landslide on a program of socializing the Bank of England and industry. You recall at that time Mr. Laski stated that if government wanted to control industry it would first have to take over banking. Now the shocking thing to me is not that England went socialistic but rather when this program of socializing the Bank of England and industry was announced, the people of England made no protest. Of course, the banking system in England is not democratic in the same sense as ours and, therefore, when this program was announced the man in the street in England simply did not care whether the banking system was socialized because he had no stake in banking. In other words, this program succeeded because the Bank of England did not serve the common man. A short time later the legislative body of France voted to take over the Bank of France and four major deposit banks, placing more than 80% of France's bank deposits under state control. The vote was 521 to 35. Just recently I read an article where France is now ready to nationalize the coal industry.

Not Only in England

This trend can also be noticed in Czechoslovakia, New Zealand, Austria, and Canada. Yes, it can also be noticed right here in the United States. There are men in Washington today who have advocated and would certainly welcome the opportunity of nationalizing the banking system right here in America. Not so long ago one of our senators who has been in the United States Senate for the past thirty years stated that we have about a 50-50 chance of maintaining our free system of enterprise.

In recent weeks I have been conducting a survey of small business, not only to try and determine their future credit needs but also to try and feel the pulse of small business throughout the community. The reaction that I get from the majority of these business men is, to say the least, pessimistic. They are disgusted with the general prevailing conditions, the strike situation, the limited availability of material.

Goodness knows there are plenty of reasons for becoming pessimistic. However, we cannot let these problems, whether they be international or local, be used to generate discouragement or defeatism; but rather they must be taken as a challenge, for there certainly isn't any hope for us if we are going to sit back and say, "Oh, well, what can we do?" or "Anyway, everything will probably work out all right."

Controls Must Be Removed

I am not an alarmist, but these are facts and it is my firm conviction that we must do everything in our power to eliminate regulation, regimentation, and Government domination and control. Then, and only then, will we return to a sound and healthy economy.

American banking has pledged that it will provide necessary credit to every competent person, firm, or corporation for any constructive purpose; and in fulfilling that pledge we have an effective weapon which will combat this trend toward socialized credit. Thus in making bank credit available to the vast majority of our citizens, it means that "the bank" becomes "my bank." Bank credit gives the average man a feeling of responsibility, a sense of security, and a greater stake in banking. By extending bank credit to the vast majority of Americans, we make the American banking system even more democratic. We cannot lose sight of the fact that as long as 51% of the people are satisfactorily served and have a stake in banking, our chartered system of banking in America will remain secure.

Conclusion

Just one more point before I conclude. How effectively banks are able to serve business depends not only on your banker but also on you—his businessman customer. He can help you only in so far as you consult with him, talk things over, take him into your confidence, and give him a chance to understand your financial needs in detail. Only you can inform your banker as to the when and why of your credit needs—and only after he knows the facts and understands your problem can he work with you to meet those needs. He will learn from you how

to serve you better, and you in turn will gain much from his broad and varied financial experience. Working together in a cooperative spirit of mutual confidence, you and your banker can form a team that is not only mutually profitable in a business sense but vitally constructive in promoting the economic health of the nation and your own community.

Does Anyone Want To Buy a Pipeline At Bargain Price?

The War Assets Administration, Office of Real Property Disposal, has announced that July 30 will be the last day for receiving offers for the purchase or lease, in whole or in part, of the Big Inch and Little Inch pipelines.

All proposals received before the closing date will be held confidential until the public reading of the bids occurs at 10:00 a. m. on July 31. In view of the great interest in the disposition of these facilities, and the nation-wide economic importance of the peace-time operation of the lines, John J. O'Brien, Deputy Administrator of WAA, has requested that all interested persons or groups discuss their proposals with WAA so *that they may be checked and analyzed before being committed to* writing. The Big Inch, 24 inches in diameter, extends from Longview, Texas, to Linden, New Jersey; the Little Inch, a mere 20 inches in diameter, runs from Beaumont, Texas, to the New York City area.

New Magazine Will Feature International Affairs Exclusively

The United States News, on May 23, brought before the public the first edition of its new weekly, *World Report.* Devoted entirely to world affairs, it follows closely the very readable format of its older and highly respected brother.

Lloyd Lehrbas, who reported the bombing of Warsaw for the Associated Press, is executive editor, and Vice-Admiral Russell Willson, U. S. N. (Ret'd), is his associate.

Uncle Sam's Payroll

Consolidated table of Federal personnel inside and outside continental United States employed by executive agencies during April 1946, and comparison with March

Departments or Agencies	March 1946	April 1946	Increase	Decrease
Executive Office of the President				
Bureau of the Budget	775	779	4	
Executive Departments (except War and Navy Departments)				
Agriculture Department	85,865	87,632	1,767	
Commerce Department	34,926	35,755	829	
Interior Department	46,169	48,022	1,853	
Justice Department	24,999	24,842		157
Labor Department	34,486	35,072	586	
Post Office Department	471,062	482,246	11,184	
State Department	19,801	19,613		188
Treasury Department	107,854	109,303	1,449	
Emergency War Agencies				
Committee on Fair Employment Practices	33	26		7
Office of Alien Property Custodian	671	706	35	
Office of Defense Transportation	131	120		11
Office of Inter-American Affairs	623	611		12
Office of Price Administration	32,377	33,262	885	
Office of Scientific Research and Development	749	715		34
Office of War Mobilization and Reconversion	670	192		478
Petroleum Administration for War	66	54		12
Selective Service System	15,650	15,176		474
War Shipping Administration	4,027	3,889		138
Postwar Agencies				
Civilian Production Administration[1]	2,521	2,851	330	
National Wage Stabilization Board[1]	822	944	122	
Office of Economic Stabilization[1]	25	32	7	
War Assets Administration,[2]	0	30,391	30,391	
Independent Agencies				
American Battle Monuments Commission	38	39	1	
American Commission, Protection of Monuments in Europe[3]	0	6	6	
Civil Aeronautics Board	410	412	2	
Civil Service Commission	4,335	4,326		9
Employees Compensation Commission	566	566		
Export-Import Bank of Washington	96	98	2	
Federal Communications Commission	1,318	1,339	21	
Federal Deposit Insurance Corporation	1,210	1,200		10
Federal Power Commission	727	727		
Federal Security Agency	31,806	31,814	8	
Federal Trade Commission	492	504	12	
Federal Works Agency	22,496	22,340		156
General Accounting Office	14,674	14,377		297
Government Printing Office	7,307	7,301		6
Interstate Commerce Commission	2,188	2,217	29	
Maritime Commission	8,615	9,545	930	
National Advisory Committee for Aeronautics	5,383	5,467	84	
National Archives	353	359	6	
National Capital Housing Authority	265	274	9	
National Capital Park and Planning Com.	15	15		
National Gallery of Art	279	288	9	
National Housing Agency	14,960	15,493	533	
National Labor Relations Board	914	977	63	
National Mediation Board	105	100		5
Panama Canal	28,657	28,630		27
Railroad Retirement Board	1,964	1,931		33
Reconstruction Finance Corporation	39,116	11,926		27,190
Securities and Exchange Commission	1,209	1,196		13
Smithsonian Institution	430	434	4	
Tariff Commission	248	245		3
Tax Court of the United States	121	120		1
Tennessee Valley Authority	11,670	11,052		618
Veterans Administration	136,015	154,428	18,413	
Total, excluding War and Navy Deptmts.	1,222,284	1,261,979	69,574	29,879
Net increase, excluding War and Navy Depts.			39,695	
Navy Department, inside and outside U. S.	561,501	543,854		17,647
War Department, inside continental U. S.	721,697	715,971		5,726
War Department, outside continental U. S.	[4]368,027	[5]352,167		15,860
Total, including War and Navy Departments	2,873,509	2,873,971	69,574	69,112
Net increase, including War and Navy Depts.			462	

[1] Previously included under "Emergency war agencies."
[2] Created Mar. 25, 1946. Includes employees transferred from Reconstruction Finance Corporation.
[3] Included for the first time in committee report.
[4] Figures as of Feb. 28, 1946.
[5] Figures as of Mar. 31, 1946.

Credit and Sales

(*Continued from page* 19)

should be given a spot on every sales meeting program so that he can give the salesmen his observations of some of their customers, and the salesmen can get a glimpse of the financial conditions of these accounts.

You know there are too many salesmen who think that all they have to do is to send in orders, and then their part of the work is finished. That is not true. Many an account that has become delinquent can be saved to the house through the help and cooperation of the Credit Department.

Know the Salesmen

I believe every Credit Manager should study the personality of the salesmen so that he knows how to approach them when it comes to collecting from a delinquent account. It is not only helpful in that manner, but will also help the Credit Department to judge the information given to him by the salesman on the various accounts in his territory.

I know in my own experience as a salesman it was easy to sell a dealer a quantity of merchandise, never thinking how long it would take him to sell the goods and have him pay the invoice.

What I am leading up to is postdating of invoices. In the old days, it was common practice to sell a man a quantity of merchandise and tell him he would have 60, 90 or 120 days to pay the invoice. That was just duck soup for the salesman. He was selling time payments not merchandise.

You know, after all, the average merchant buys three things—dating, free goods and window display, and, of course, with such a program for the salesman to come out even, he had to sell him a goodly quantity of goods, with the result that, when it was time to pay the bill, the average fellow would not have the money to pay for the goods.

Good Account Past Due

I particularly have in mind a friend of mine who opened up a drug store; he had character, he had ability to pay, he had everything, but, after operating for a year, our Credit Manager discovered his purchases were falling behind and he was past due on his account to the extent of about $1800.00.

I was called in and asked to go out to see the fellow and find out what was the matter. I discovered he had married, was paying more rent for his home than he should and was buying a lot of postdating orders from various suppliers. As these payments became due, he naturally paid them, but the wholesalers suffered.

So at the suggestion of the Credit Manager, I made arrangements with him whereby he paid cash for every order that came in. This, of course, was after we had taken a demand note from him for $1800.00. We asked him to add $10.00 to $15.00, or as little as $5.00, to each order he received, until this note was liquidated.

He liquidated the note within a period of fourteen months. This happened about ten years ago and he still talks about the smartness of this Credit Manager who put him on the right track.

Help Retailers

I believe a credit man can be a lot of help to the average retailer by helping to improve his methods. He can assist with free advice duing bad times by citing to this retailer instances with which he has had actual contacts.

After all, today the average retailer is not only a buyer, but a bookkeeper, window trimmer, janitor and OPA policeman, as well. I believe it is essential for the Credit Manager to visit the various territories covered by the salesmen and become acquainted with these accounts, thereby gaining personal knowledge of the conditions existing in the different sections of each salesman's territory. This will not only help the Credit Department, but also is helpful to the Sales Department.

A credit man can be very helpful to the Sales Department by furnishing leads to the salesmen that can be developed. He can get this information through his trips around the territories. He can get information through the conditions existing at each monthly check-up of accounts. He can inform the Sales Department very easily of all accounts lagging, so that the Sales Department, in turn, can get after the salesmen to contact these accounts properly and get more sales.

New Pittsburgh Zebras Are Put Through Their Paces

Pittsburgh: The officers of the Pittsburgh Herd of the Royal Order of Zebras held their Annual Zebranitiation on Tuesday, July 2nd. The evening got under way with a dinner at Daniels' Farm on McKnight Road, after which they put the Mule Skinners to work on some new candidates for the Herd.

WHAT ARE FAIR WAGES?

They Are Never Exactly at the Point of Equilibrium

by J. E. LeROSSIGNOL
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In discussing this question the seller of labor—whether unskilled worker, craftsman, clerk, teacher, lawyer, or movie actor—is apt to say that a fair wage is as much as he can get; whereas the employer, as buyer, is likely to think, if not to say, that a contract wage, however low, is perfectly fair, being determined by voluntary agreement in a free market. The employer, therefore, might reply to a disgruntled worker, as in the ancient parable of laborers in the vineyard: "Friend, I did thee no wrong: didst thou not agree with me for a penny?" This implies that business people—and all who have commercial dealings are in that class—have a right to buy in the cheapest market and sell in the dearest, and that the result of free bargaining is a fair, just, reasonable, and right price.

Temporary Phase

This, one might say, is common business practice and common sense, and yet, to the historical eye, it appears as a temporary phase of business relations, which culminated in the *laissez-faire* philosophy of the nineteenth century and now seems to be passing away. During the Middle Ages of Europe, as in ancient times, people of every class were expected to be content with the rank or station in which God had put them. Just wages, therefore, like just prices, were held to be customary wages, such as would enable the laborers to live as their fathers had lived, and the upper classes, who were in control, did their best to keep them in their proper station.

For example, in the year 1349, after the Black Death, which had destroyed a large part of the population of Europe, a law was passed in England requiring that servants should receive the same wages as had been offered before the plague. However, as labor was very scarce, the law could not be fully enforced and wages continued to rise for some time. In England, at least, if not on the Continent, the workers were no longer satisfied with customary pay and wages were determined more and more by free contract. Reminding one of the oft-quoted words of Sir Henry Maine: "The movement of progressive societies has hitherto been a movement from status to contract."

Servant Becomes Master

This was especially true in the colonies, where labor was relatively scarce and wages were high. Governor Winthrop, of Massachusetts, tells in his journal of a master who, in the year 1645, was forced to sell a pair of oxen to pay a servant's wages. "He told the man he could keep him no longer, not knowing how to pay him next year. The servant answered he would serve him for more of his cattle. 'But how shall I do,' saith the master, 'when all my cattle are gone?' The servant replied, 'You shall then serve me and have your cattle again.'"

In this case, because of the scarcity of labor, the servant had the upper hand and the master was the under dog; but more often, under the contract system, the servant is at a disadvantage in that he has only his labor, a perishable commodity, to sell, and there is usually someone ready to take his place. In the course of time, therefore, labor and the friends of labor have made numerous efforts by way of setting up progressive standards of living to mitigate the hardships of free contract and raise wages to higher and higher levels.

Churchmen and Laymen Speak

Among the efforts to define fair wages along these lines may be mentioned that of Pope Leo XIII in the celebrated encyclical, RERUM NOVARUM, of May 15, 1891, where it is stated: "Let the workingman and the employer make free agreements; nevertheless, there underlies a dictate of natural justice more imperious than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner. . . . If a workman's wage be sufficient to enable him comfortably to support his wife and his children, he will find it easy, if he be a sensible man, to practice thrift and put by some little savings."

Forty years later Pope Pius XI issued another encyclical in which he vindicated and developed the teaching of his predecessor, while noting that the welfare of the employer also must be considered, thus: "The condition of any particular business and of its owner must also come into question in settling the scale of wages, for it is unjust to demand wages so high that an employer cannot pay them without ruin and without consequent distress among the working people themselves."

More specific is the dictum of Mr. Justice Higgins, President of the Australian Commonwealth Arbitration Court, who, in the famous Harvester judgment of 1907, took as his standard "the normal needs of the average employee regarded as a human being in a civilized commu-

nity," and estimated that a weekly wage of forty-two shillings—about ten dollars—was needed to maintain a family of five. Of course, as the cost of living in Australia has more than doubled since the year 1907, the minimum wages determined by the wages boards and arbitration courts have been correspondingly increased.

Minimum of Justice

In the year 1927 Professor John A. Ryan estimated that in any large city of the United States the minimum cost of decent living for the "standard" family of five was between $1500 and $1700 per annum. This, he wrote, represented the minimum of justice, after which the problem of complete wage justice should be considered with due regard to the interests of the employers, consumers, and weaker groups of wage-earners.

In discussing the interests and rights of employers, Father Ryan wrote: "When the various groups of workers are already receiving the 'equitable minimum' they have no strict right to any additional compensation out of those rare surplus profits which come into existence in conditions of competition. If exceptionally able business men were not permitted to retain the surplus in question, they would not exert themselves sufficiently to produce it; labor would gain nothing; and the community would be deprived of the larger product."

Later Budgets

More recent writers on this subject working for the Division of Social Research of the Works Progress Administration made estimates of goods and services needed on June 15, 1943, in our larger cities by a four-person family living at a "maintenance level." Such a family would require a yearly income of $1641 in Atlanta, $1598 in Detroit, $1816 in New York, $1807 in San Francisco, and $1809 in Washington, D. C. The report adds that, because of the later increase in the cost of living, the figures should be raised by 5 per cent to make them applicable to October, 1945.

Another investigation based on the spending habits of economic groups in San Francisco has been made by the Heller Committee of the University of California. The Committee found that a wage-earner's family consisting of man, wife, boy of 13, and girl of 8 would require to meet the generally accepted standard of "health and decency" as of March, 1945, a yearly income of $3075.72, or an average weekly income of $59.13.

An examination of this budget seems to show that it should be sufficient for a standard of relative comfort, inasmuch as it allowed $978 for food, $179 for medical care, $137 for automobile upkeep, $113 for life-insurance premiums, $350 for the purchase of war bonds, and several other rather liberal allowances. But who shall say that an American family should not have all of these things —and more, if possible?

Human Wants Unlimited

From such figures as these it is evident that there is no limit to human wants and that a standard of living based on the needs of one party to the labor contract cannot be the sole basis of a fair wage. A wage is not a gift nor an exaction by force or fraud, but a payment for service rendered, a *quid pro quo*, and must be determined, on the side of the employer, by the value of the service to him. To the worker a wage is income, but to the employer it is expense or money cost and, as such, cannot and will not long be paid unless the money value of the product created or the service rendered is sufficient to cover the cost.

On the face of it a labor contract is an agreement between two parties —the employer and the employee— but in most kinds of business, where the employer has something to sell, there is a third party concerned, the consumer, who, in the last analysis, is the real employer of labor, the business man being a sort of agent or middleman. Fair wages, therefore, must be such as are fair to all concerned, permitting of fair prices and profits as well as fair wages and, as Professor Pigou puts it, will "maximize the national dividend."

Workers Want to Keep Gains

The present wave of serious strikes has been closely related to high wartime wages and the determination of the workers to keep

what they had gained, if not to get something more, especially in view of the rising cost of living. For example, in our manufacturing industries weekly earnings, including overtime pay, had increased by 70 per cent—from $27.71 in January, 1941, to $47.12 in April, 1945—but the workers feared a return to the standard 40-hour week which, at current wage rates, would have reduced their average take-home pay to $36.29. They were ready, therefore, to listen to such aggressive leaders as Philip Murray, President of the Congress of Industrial Organizations, and Walter P. Reuther, now President of the International Union of Automobile Workers, CIO, who demanded a general increase of 30 per cent in basic rates, or 47 hours' pay for a 40-hour week, which, plus overtime, would have more than restored wartime earnings.

Average Wage Higher

The CIO had been encouraged in these demands by the discovery of a confidential report from the Office of War Mobilization and Reconstruction stating that the manufacturing industries could increase average wage rates for the year 1946 by 24 per cent without increasing prices or reducing profit margins. Mr. Murray, however, found this estimate far too conservative and, forecasting a "spectacular increase in productivity," concluded that the manufacturers could pay a total wage increase of 38 per cent without price increases and with profits after taxes at twice the prewar level.

When the General Motors strike began, in December, 1945, the workers in our manufacturing industries were still getting average weekly earnings of $41.40 for about 42 hours, being an increase of 50 per cent over their wages of January, 1941; and even if their pay had been cut to $36.29, as feared, they would still have been getting an increase of 36 per cent, as compared with the 33 per cent increase in the cost of living estimated by the Bureau of Labor Statistics. But Mr. Murray claimed that the cost of living had increased by at least 45 per cent and that, allowing for the increased productivity of the average worker, a wage increase of 54 per cent would be necessary to restore the prewar relationship of wages to cost of living and labor productivity.

This final figure looks like a wild guess, and Mr. Murray was surely overstating his case, especially in view of the statement by Henry Ford, II, that "on the whole, productivity in our plants declined more than 34 per cent during the war period." However that may be, the employees of General Motors, whose wartime weekly earnings had been on a par with the Heller budget, could have earned almost as much if they had accepted the Corporation's offer of a 45-hour week with a 6 per cent increase in basic rates and the usual time-and-a-half for overtime. The offer was rejected by the Union as "reactionary," but it had considerable merit as looking toward increased production, the only source of prosperity and higher standards of living and the best antidote to inflation.

The case of the strikers, as presented by the labor leaders, rests chiefly upon the needs of the workers in a time of rising cost of living, but it has been backed up by the claim that, in view of wartime profits and future prospects, the employers are well able to pay the wages demanded. This is a questionable contention, and might prove to be a boomerang in time of depression when the employers' ability to pay out of current income might be reduced to nothing or less than nothing.

But a great array of figures has been assembled to prove that profits, both before and after taxes, have been excessive. The profits before taxes, of course, are irrelevant in this connection, but those after taxes, as shown in the following table, are more to the point.

Manufacturing Corporation Profits after Taxes (1936 to 1945)
(In Billions of Dollars)

Prewar Years	
1936	2.5
1937	2.5
1938	0.9
1939	2.6
Prewar average	2.1
War Years	
1940	3.5
1941	5.3
1942	4.9
1943	5.6
1944	5.8
War average	5.0

From these figures it is obvious that the wartime profits of manufacturing were much higher than those of the thirties, when they were ab-

Corporation	Net Income	Payrolls	Sum of Net Income and Payrolls	Percentage Going to Owners	Percentage Going to Employees
General Motors	$170,995,865	$1,380,030,467	$1,551,026,332	12	88
U. S. Steel	60,791,281	914,341,158	975,132,439	7	93
Bethlehem Steel	42,500,000	847,000,000	889,500,000	5	95
General Electric	50,800,000	464,000,000	514,800,000	10	90
American Telegraph & Telephone Company	163,165,614	1,073,928,000	1,237,093,614	14	86
Swift & Company (to Oct., 1945)	12,303,807	161,359,601	173,663,408	8	92
National Dairy Products Company	13,318,000	94,648,000	107,956,000	13	87
American Rolling Mills Company	5,067,991	64,786,517	69,854,508	8	92
Fairmont Creamery	1,070,280	8,502,633	9,572,913	11	89
West Virginia Pulp & Paper Company	2,142,672	15,439,766	17,685,838	13	87

normally low; but it should be remembered that the OPA and the other governmental price - fixing agencies felt obliged to encourage business in order to get the best results. Besides, it is worth noting that less than half of the net profits have been paid out in dividends, the rest being retained as surplus earnings for improvements and security, and that the stockholders themselves have been heavily taxed by the federal, state, and local governments.

Facts

It is commonly thought that business profits are very high as compared with wages and salaries, but the figures opposite taken from the reports of relatively successful concerns may serve to correct such misconceptions.

That these figures represent fairly well the normal ratios of profits to payrolls may be seen in the *Survey of Current Business* of January, 1946, which gives the distributive shares of corporate production for the year 1944 and estimates the profits after taxes at 9 per cent and the compensation of employees at 61 per cent, making a total of 70 per cent of total production as the combined share of owners and employees, of which the owners had 13 per cent and the employees 87 per cent.

It looks, therefore, as though even the most successful corporations, such as General Motors and General Electric, could not afford to make any substantial increase in wages without price relief; and how relatively unsuccessful concerns—the so-called marginal businesses—could follow their lead it is hard to see.

New Price Policy

However, pending governmental decision as to prices a number of strikes have been settled by increasing hourly basic wage-rates by about 18.5 cents or from 16 to 17 per cent. These compromises have encouraged many other unions to demand similar concessions and have set a minimum standard or pattern for future agreements. But inasmuch as the industries were able to show that they could not "absorb" any considerable part of the additional costs without serious loss, the government has been obliged to promise price relief. The new price policy announced by President Truman on February 14 is, in brief, as follows:

"First, a basis for reasonable wage settlements in all cases. Labor is assured the opportunity to obtain wage adjustments in line with those worked out in free negotiations, or recommended by the government, since V-J day.

"Second, prompt adjustments in price ceilings wherever they are necessary to relieve hardship or increase production of essential goods."

Objective Is Output

Here is no guide to the discovery of reasonable wages apart from free negotiation or governmental recommendation which, as everybody knows, is nothing but compromise or splitting the difference. But the final word in the statement, "increased production of essential goods," strikes the key-note for harmonious settlement by implying that the prime objective of economic effort should be the greatest possible output of goods and services—balanced abundance—and that the sharing of the joint product of labor and capital, important though it be, is of secondary moment. If, then, we are to have maximum productivity and high, if not full, employment of our resources, natural and human, there must be balance or equilibrium among the parties participating in production and the shares going to them, which are their incentive and reward.

Equilibrium Profits

An equilibrium price, as T. N. Carver has put it, "is a price which will induce producers to supply as much of a commodity in question as buyers are willing to buy. At the equilibrium price the market clears itself: exactly as much is offered for sale as is bought, leaving neither would-be buyers ready to pay the price but unable to get the commodity, nor would-be sellers willing to sell for the price but unable to find buyers." In other words, an equilibrium price is a price determined by competition among many buyers and many sellers, where there is no monopoly; and such a price, as most unbiased buyers and sellers will admit, is not far from fair.

By the same token equilibrium profits are such as will induce investors to supply as much venture capital as business enterprisers are willing to use. At the equilibrium point the market tends to clear itself, leaving neither idle capital awaiting sufficient incentive to invest nor business enterprisers unable to obtain the funds they need for starting new enterprises or expanding those already begun. The supply price of venture capital, of course, varies with the estimated risk, but who shall say that competitive profits, whether in farming, manufacturing, merchandising, mining, or what not, are not as fair as can be in our present economic order?

If then, we may find fair prices and profits at their respective points of equilibrium, why may we not look for fair wages at or near a similar point of equilibrium or balance, where employers and employees come together in a free market and the market clears itself, leaving neither employers willing to pay that wage unable to find employees nor employees willing to accept it unable to find employers?

Equilibrium in Wages

Actual wages, of course, are never exactly at the imaginary point of equilibrium, but either above or below it, so there is always room for bargaining. If, as is often the case, the employer, in a buyers' market, has the greater bargaining power, he may keep wages down below the point of equilibrium, and thus injure his employees by paying them less than they are worth and injure himself by failing to get the needed supply of competent workers. If, on the other hand, the employees have the advantage, by virtue of being strongly unionized, they may force wages above the point of equilibrium, sacrifice the high-cost or marginal employers and throw more or fewer of their fellow workers into the limbo of the unemployed.

The deplorable strikes which have been going on at the very time when reconversion was the order of the day and prospects were bright for good business, full employment, and a national income adequate to our financial commitments, have painfully shown the folly and futility of

(*Continued on page* 34)

Federal Reserve Amends Parts of Regulation W

The Board of Governors of the Federal Reserve System has adopted effective July 5, 1946, the following amendments to Regulation W.

Section 2 (e) now reads:

Instalment Sale means an instalment credit *in a principal amount of $1500 or less,* which is made, as principal, agent or broker, by any seller of any consumers' durable or semi-durable goods listed in section 13 (2) (hereinafter called a "listed article") and which arises out of a sale of such listed article.

Section 8 (a) now reads:

Real Estate and home improvement loans—Any extension of credit which is for the purpose of financing or refinancing (1) the construction or repair of an entire residential building or other entire structure or (2) repairs, alterations, or improvements upon urban, suburban or rural real property in connection with existing structures, *provided such repairs, alterations, or improvements do not incorporate any listed article.*

Section 8 (c) is amended by revising clause (1) thereof to read as follows:

(1) That the proceeds are to be used for *bona fide* educational, medical, hospital, dental or funeral expenses, or to pay debts incurred for such expenses, and that such proceeds (unless they are to be used exclusively for educational expenses) are to be paid over in amounts specified in such statement to persons whose names, addresses and occupations are stated therein.

Fair Wages

(Continued from page 33)

disputes about future income which make the creation and enjoyment of it impossible. The OPA, to be sure, is fixing higher prices all along the line, but that is a sort of conspiracy of labor and capital, with the connivance of the government, against the general public by making millions of consumers whose incomes remain low pay tribute to those whose incomes are already relatively high.

Moreover, the additional inflation thus generated may make the cost of living rise faster than wages, and thus take from the strikers themselves in buying power or real wages more than they have gained in money income. As Dr. Edwin G. Nourse, of the Brookings Institution, has well said: "Prosperity is spelled by more goods for the same money, not more money for the same goods."

For all of that, our belligerent labor leaders, in the name of collective bargaining and the right to strike, are determined to get for their followers all they can, regardless of the public welfare or their own long-time interests. How long the patient public will stand for this remains to be seen, but already other interests are becoming more vocal, and sooner or later labor power is likely to be increasingly limited by the power of pressure groups arrayed against it. And if, through such conflict of forces, a harmonious and happy resultant be not forthcoming, what will remain but drastic governmental dictatorship, from which we may well pray to be delivered?

Small Business Men's Association To Meet in Chicago July 22

The National Small Business Men's Association will hold its annual national membership meeting at the Palmer House in Chicago July 22, 23 and 24, according to DeWitt Emery, president.

Operators of small business enterprises from all over the United States are expected to attend the sessions, which will deal with government regulations, labor relations, taxes and other problems of present-day business.

Harold O. McLain, president of the Railways Ice Company, Chicago, will be the principal speaker at the banquet to be held July 23 and Billy B. Van, mayor of Newport, N. H., will speak at the luncheon meeting July 24. Other noted speakers will be heard at various sessions of the convention, Mr. Emery said.

As president of the association, Mr. Emery will report on the organization's accomplishments and objectives.

False Matter

(Continued from page 9)

right on the face of the mailing.

It is not necessary that the financial statement be mailed, and it is not even necessary that any credit be extended thereon. The scheme is complete with the attempt to get merchandise or credit by means of a false financial statement, and if the mails are used to effectuate that scheme the crime is complete.

Therefore, what you must look for are any letters which within the past three years were mailed by the prospective defendant or, for that matter, caused to be mailed by the prospective defendant, which letters either on their face or by proof outside can be shown to be letters which were mailed or caused to be mailed pursuant to the scheme to get merchandise by means of false statements.

The courts have gone pretty far in holding that the mails were used fraudulently pursuant to the scheme. For instance, a letter acknowledging the receipt of the merchandise or a letter asking for extension of terms or any other letter of a similar nature which helped the defendant in executing the scheme would be held to be a crime pursuant to it and, therefore, the statute of limitations would start running from the date of the mailing of such letters.

Referees' Salary Bill Overcomes All Hurdles; Is Now Law

The Referees' Salary Bill, H. R. 4160, which places referees in bankruptcy on a salaried basis, was passed by Congress and sent to the President for signature on June 19.

The bill places a ceiling of $10,000 on the salary of referees and abolishes the fee system. With the fees accruing to the Government the resulting fund would meet all of the requirements for referees' salaries and return a profit to the Government as well, according to Representative Sam Hobbs, of Alabama, who had charge of the bill on the house floor.

NEW BOOKS

Milan V. Ayres, former Analyst and General Manager of the National Association of Sales Finance Companies, is the author of a new volume, INSTALMENT MATHEMATICS HANDBOOK, which the Ronald Press Company has just published.

Priced at ten dollars, the book covers all the regular and special calculations necessary in instalment financing and time-payment liquidations in all companies or organizations operating in such fields. It is designed specifically to aid those who are engaged in instalment selling, making direct loans to individuals, to finance companies organized to deal in instalment paper, and to men in banks and other agencies making loans to finance time-payment activities.

Another recent volume, WHEN FOREMAN AND STEWARD BARGAIN, by Glenn Gardiner, Vice-President, Forstmann Woolen Co. (*McGraw-Hill*, $2), meets management's present-day need for up-to-date information on the first phase of collective bargaining, the day-to-day relations between foreman and union steward. Written primarily for the foreman, it is intended to explain to him what unionization means in all its implications and how it affects the foreman as part of management.

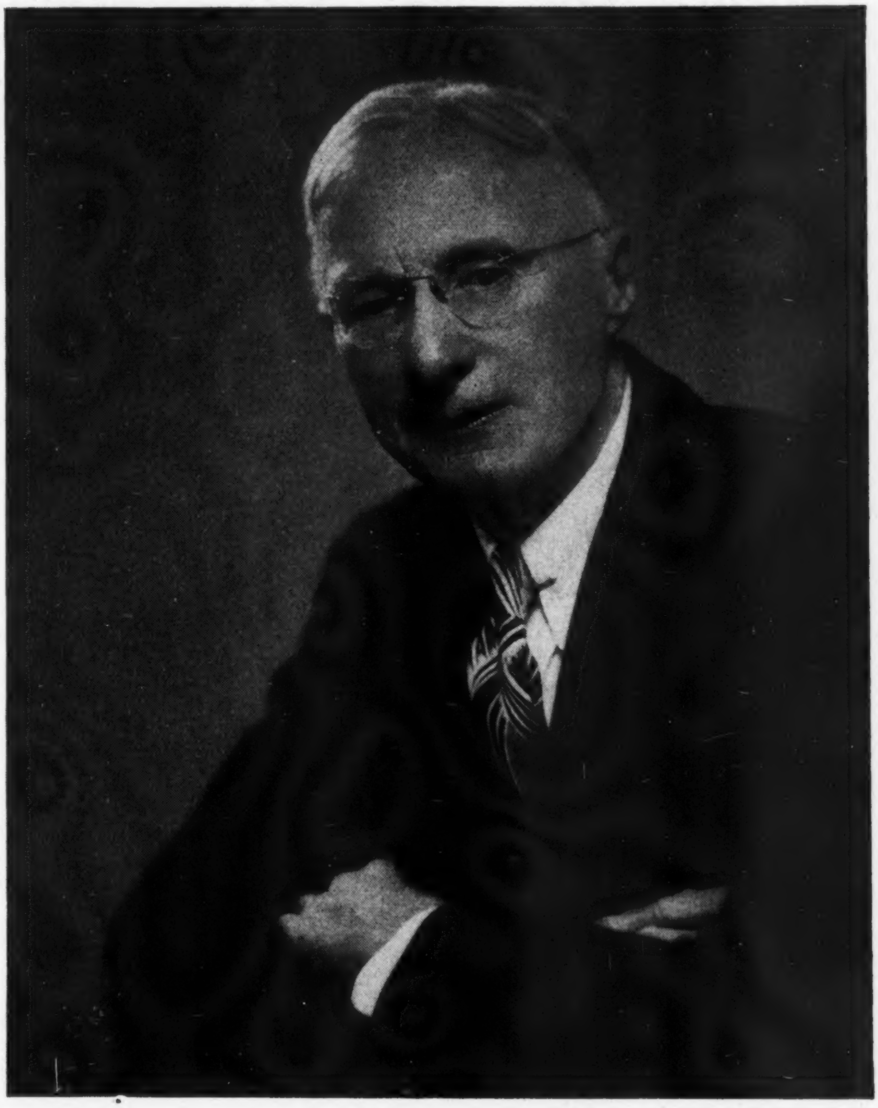
Bankers' and Surety Associations Revise Two Standard Forms

Following a comprehensive survey by the Surety Association of America, in collaboration with the Insurance and Protective Committee of the American Bankers' Association, Bankers' Blanket Bonds, Standard Forms Nos. 2 and 24, have been revised by the former association.

This is the first postwar revision of these forms, and it is retroactive to March 1, 1946. The overall effect is to broaden the scope of coverage and to bring the forms up to date by including in the printed forms all the broadening features heretofore added by rider only.

The revision of the bond forms has rendered obsolete certain existing riders and several new riders consequently have been drafted. In addition, a number of others have been revised. Thirteen major changes common to both forms have been effected.

Edward J. Rieckelmann Was a Delegate to the First National Convention in 1896



Of more than passing interest is the picture above of Mr. Edward J. Rieckelmann.

Mr. Rieckelmann was a delegate to the first convention of the National Association of Credit Men at Toledo in 1896. He is now almost 76 years old. His health has not been very good and so he spends much of his time in Flordia, although his business life has been spent in Cincinnati.

Harry W. Voss, Secretary-Manager of the Cincinnati Association of Credit Men, states, in a letter which accompanied the picture, that Mr. Rieckelmann "would try to think of the names of the other delegates and would write a letter giving them to him. He said that he was positive he was one of the youngest men in attendance—that they met in a theatre and he thought the name of the theatre in Toledo was the National Theatre." (Is that correct, Toledo?) "He remembered very distinctly that it wasn't a very attractive place and that it had a musty, offensive odor."

Mr. Rieckelmann is the first gentleman whose attendance at the first convention has come to our attention. He is probably not unique, however, and if anyone knows of any other delegates to that historic meeting, and will take the trouble to write to us (and send a photograph) we would be most pleased.

Reader Derives Benefit From CREDIT Article

People who edit magazines are the recipients of quite a large amount of mail of one kind and another. A goodly proportion of this mail consists of complaints from this person and that which stick to a definite form: "Why did East Cupcake only get thirty-three columns in last month's issue?" (This, incidentally, in spite of the fact that East Cupcake had not previously written to us about themselves since 1929!)

However, now and again, the postman brings us something really satisfying. The letter that follows is an example of the kind of letter we *like* to receive. It proves that people not only read what we publish, but put some of the ideas propounded into practice.

Here is the letter:

Marchant Calculating Machine Company
Oakland 8, California
May 24, 1946

Credit and Financial Management
1309 Noble Street
Philadelphia 23, Penna.
Attn: Mr. Richard G. Tobin: Editor

Gentlemen:

We were particularly impressed by Mr. Thomas O Malley's article in your April edition entitled "Banks as Credit Sources," as we have not been satisfied with some of the credit information received from banks.

In the past we received information of a general nature as we inquired only into the credit reliability and general business reputation of certain of our accounts who are not nationally known. In many instances the banks only indicated that the account was known to them and that they believed the account responsible for our credit consideration.

The results have been more satisfactory since we adopted some of Mr. O Malley's suggestions and revised our credit information letter to banks. As we thought Mr. O Malley might be interested in our findings, we are attaching copies of both our old and new credit information letter and also an analysis of our latest bank references.

Yours very truly

Original Form Letter

Gentlemen:

You have been offered as a credit reference by the following company:

We will greatly appreciate any information you may give us in connection with the credit reliability and general business reputation of this company.

Your prompt cooperation in this connection will be very much appreciated, and for your convenience in replying there is enclosed a self-addressed airmail envelope.

Yours very truly

New Form Letter

Gentlemen:

You have been offered as a credit reference by the following company:

In order to complete our credit file for this account will you please comment on all of the following items:

1. Account has borrowed ....
   Secured: .... Non-Secured: ...
   Secured by Real Estate ....
   Merchandise ....
   Accounts Receivable ....
   Securities ....
   Dates of Loans: ....
   Amount of Loans: ....
2. Account does not borrow: ....
3. Average balance: $..........
   Date of Opening Account: .....
4. Character Reference: ....
   ....
5. Remarks: ....
   ....
   ....

For your convenience in replying a copy of this letter is enclosed for insertion of your comments, together with a stamped addressed envelope.

Yours very truly,

ANALYSIS OF BANK REFERENCES

REPORTING

100 Banks reporting from all states.
34 Filled in our form and returned it. In this case the majority of banks did not sign their name to the report.
66 Banks composed their own letters.

BORROWING

41 Definitely stated account borrowed.
36 Stated account did not borrow.
23 Did not answer this question.

BORROWING SECURED OR UNSECURED

14 Reported account borrowed secured.
10 Reported account borrowed unsecured.
4 Reported account borrowed both secured and unsecured.
72 Did not answer this question.

AMOUNT OF LOAN

16 Listed exact amount of loan account borrowed.
23 Did not quote amount borrowed.
61 Did not answer this question.

AVERAGE BALANCE

58 Gave average balance in "medium 4 figures," "Substantial amount," etc., phrases.
12 Quoted exact amounts, or in the higher brackets figures, like "10-15M," etc.
2 Reported average balance plus, giving exact net worth of account.
30 Did not answer this question.

CHARACTER REFERENCE

69 Reported a good character reference.
31 Did not answer this question.

ACCOUNT BACKGROUND

68 Stated exact number of years account was known to them.
10 Stated "period of time" or number of months.
22 Did not answer question.

CREDIT RECOMMENDATIONS

76 Recommended account for credit.
24 Did not mention Credit risk or assume responsibility for their report.
1 Reported account was "slow" with payments.
4 Reported account "discounted" payments.
3 Reported account "prompt" in payments.
1 Reported high credit but "careless" with payments.
9 Gave no specific credit information but recommended account for credit.

(*Continued on page 46*)

NACM NEWS

About Credit Leaders ***Association Activities***

E. L. Blaine, Jr. Is Elected President at French Lick

Former Vice-president of Seattle to Lead N.A.C.M. During 1946-47

E. L. Blaine, Jr., Peoples National Bank of Seattle, Washington, is the new president of the National Association of Credit Men, elected at the business meeting held in French Lick Springs, Ind., on June 25th. To serve with him as his official aides during the next Association year, Joseph Rubanow, Manufacturers Trust Company, New York, was elected vice-president for the Eastern division and Harry J. Offer, Edison Electric Co., Detroit, was elected vice-president for the Central division and Frank J. Dudley, General Grocery Company, Portland, Oregon, was elected vice-president for the Western division.

Mr. Blaine, who was a vice-president representing the Western division, served as chairman of the National Membership Committee during the past two years, during which period more than 5,000 net gain in membership had been registered for N.A.C.M. A complete report of the excellent showing in membership gain under Mr. Blaine's leadership is presented elsewhere in this issue.

Eight new members of the National Board of Directors were elected and two Directors who had been appointed by the Board to fill vacancies were confirmed for the balance of their two-year terms. The Directors elected at the French Lick Springs meeting and the districts they represent were:

1st District—Miss Mary E. Curran, Assistant Treasurer, Jones, McDuffee & Stratton, Boston, Mass.

2nd District—Miss Bess R. Havens, First National Bank, Binghamton, N. Y.

3rd District—Hugh B. F. Kerr, R. W. Norris & Sons, Baltimore, Maryland.

4th District—Paul J. Viall, Chattanooga Medicine Co., Chattanooga, Tenn. (two-year term); Otto E. Dreutzer, Alms & Doepke Co., Cincinnati, O.

5th District—George H. Nippert, Procter & Gamble Distributing Co., Chicago, Ill.

6th District—T. B. Hendrick, Oklahoma City, Okla.

7th District—Arthur E. Slack, I. W. Phillips Co., Tampa, Fla.

E. L. BLAINE, JR.

8th District—(No Vacancies).

9th District—(No Vacancies).

10th District—F. W. Black, Swift & Co., San Francisco, Cal. (two-year term); Charles W. Adams, John W. Graham Co., Spokane, Wash.; Nat S. Davis, Bohemian Distributing Co., Los Angeles, Cal.

President-elect Blaine and the new vice-presidents and the Board of Directors held a two-hour session on Tuesday afternoon after the adjournment of the annual business meeting. At this meeting plans were discussed for the Association's activities in the year ahead. President Blaine announced that he expects to announce all National Committees by early in July so as to keep the efforts of the Association going at full speed throughout the summer.

Paul Miller Reports to Delegates on Research Foundation

Past President Paul W. Miller of Atlanta spoke at the Monday afternoon session of the French Lick meeting on the Credit Research Foundation, which has been under discussion by members of the National Board and a special committee, of which Mr. Miller has served as Chairman during the past two years. He took as his theme the importance of research in every line of modern endeavor. Automobile manufacturers, both individually and in their association, spend huge sums each year on research to improve their products, and the Iron and Steel Institute is credited with practically every advance in

(Continued on page 45)

Small Numbers No Damper to French Lick Delegates

Enthusiastic Credit Men Hold Streamlined Business Meeting

While the attendance at the 50th annual meeting of the National Association of Credit Men at French Lick Springs, Indiana, on June 24th and 25th was limited as to numbers, there was no limit to the spirit and enthusiasm shown for the future activities of this nation-wide organization of the credit and financial officials of the leading manufacturers and wholesalers. In two half-day sessions the reports of committees and officers were presented. These reports covered a broadened educational program; a foundation to promote special research in the problems of business finance and credit looking to the further advancement of credit as a business profession and for a further development of the Association's service functions.

The first delegations began to arrive on Sunday, June 23. Meetings of the committees on resolutions, nominations, Credit Interchange and of the National Executive Committee of the women's activities were held on Sunday evening and on Monday morning. By the time the annual business meeting was called to order by President Robert L. Simpson of New Orleans, who had served during the past two war years, the machinery of the conclave was in smooth working order and the program progressed without a hitch as originally planned.

At the Monday afternoon session Executive Manager Henry H. Heimann gave a report of the Association's progress during the two years since the last annual meeting in Omaha. In this report Mr. Heimann outlined the advancement that had been made in membership and in various service activities. He pointed to the growth and progress of Associations all over the country as the key to progress of N.A.C.M. With business returning to a normal basis, he predicted a still further progress for the Association.

Paul W. Miller of Atlanta, who has headed a committee at work for several months on a plan for a Credit Research Foundation, presented a glowing picture of some of the benefits to the credit profession which might be obtained from

such a program. Further details of Mr. Miller's plan are presented elsewhere in this issue. The new Board of Directors at its meeting directly after the French Lick business meeting continued Mr. Miller's committee for further promotion of the plan. Past President Miller and his committee will work out further details of the proposal, which will be submitted to the members in each Association for consideration. It is hoped that final action on the Research Foundation program will be ready to submit to the National Board of Directors in time for its fall session.

Dr. Carl D. Smith, Director of Education, presented a plan for broadening and developing the educational work of the Association through the National Institute of Credit. This enlargement contemplates additional study requirements for both the Associate and Fellowship awards, the promotion of district clinics on credit problems and a revival of the Summer Institute of Credit, which, because of war conditions, had been discontinued for two years. A further outline of Dr. Smith's report is presented elsewhere in this issue.

As chairman of the Board of Governors of Credit Interchange, Gus C. Klippel, Van Camp Hardware and Iron Co., Indianapolis, presented a glowing report on the operation of this important feature of N.A.C.M. service. He pointed out that while the membership of N.A.C.M. has shown a 25% gain during the past two years, Credit Interchange now has the largest number of contracts in effect in its history, a gain of 32%, most of which has been recorded since January 1st, 1946, when the present progressive plan went into effect. A total of six new Credit Interchange Bureaus are now in operation and the number of member inquiries has increased by 40%. While this increase represents an excellent and encouraging showing, Mr. Klippel pointed out that the initial cost of establishing new Bureaus is heavy and that it will be necessary to continue intensive promotion of this service. Plans now in operation and under consideration will, he predicted, give Credit Interchange such an impetus during the next Association year that the service will be able to present an even better report by the time of the next convention in New York City.

The Tuesday morning session was devoted to awarding of prizes, reports of the resolutions and nominations committee and the election and installation of officers.

The first prizes to be awarded were those given by the National Board to the local Secretary Managers or members of the local office personnel on suggestions for improving Association services.

The membership awards in the various classes were then announced by E. L. Blaine, Jr., who has acted as chairman of the National Membership Committee for the past two years.

William C. Hussey, Lever Brothers & Adler, Rochester, N. Y., whose term as National Director expired this year, presented the report of the Resolutions Committee, of which he had served as chairman. The resolutions as read by Mr. Hussey were unanimously adopted.

French Lick Banquet Is Featured by Inspiring Talks by President and Executive Manager of N. A. C. M.

Robert L. Simpson Tells Goals He Hopes N.A.C.M. Will Reach

The delegates at the French Lick Springs business meeting heard two stirring addresses at the Monday night banquet. Past President Ned Pilsbury of New Orleans, who acted as toastmaster, first called upon President Robert L. Simpson to give a report on some of the highlights of the two years during which he has served as president.

Mr. Simpson responded with what he called his "swan-song." Speaking from only scanty notes, Mr. Simpson painted a glowing picture of what the National Association might accomplish, what it had already achieved and how he hoped it would be the means of placing credit upon a high professional basis.

Leadership was one of the basic factors in the achievements of the Association, Mr. Simpson said, and that only with progressive leadership will it step ahead in future years to take its rightful place in the business world. As he traveled about among the Associations during the past two years he was impressed by the fact that strong leaders mean a strong local Association. The influence of these strong local Associations is felt throughout the national organization, he declared.

Commenting upon the replies obtained from the Secretary Managers in the contest fostered by the National Board, Mr. Simpson observed that many of the suggestions doubtless would be put into effect in the near future and that they would increase the efficiency of the Association's activities. He expressed the hope that this contest might be continued from year to year, as he thought it would result in much good for the Association. The replies received from the Secretary Managers have been passed along to the members of the National Board and to the new National officers.

Speaking in favor of the plan to establish a Credit Research Foundation, Mr. Simpson pointed out that from his two years' experience as president of the National Association he knew there are many important measures and activities that have been sidetracked because of insufficient funds and personnel to undertake them. The Foundation, when properly launched, would enable this work to be done. This is not another means of financing the National, he said, but rather a proposed method of doing a much broader work.

Henry H. Heimann Points to Credit as Biggest Factor in Prosperity of Nation

One of the main features at National convention programs is the keynote address by Executive Manager Henry H. Heimann. These addresses have generally dealt with business economics and have been widely quoted in the nation's newspapers as expressing the views of the credit and financial executives of the country. Because of the short sessions at the French Lick meeting, there was no time for the usual address by Mr. Heimann, but at the Monday night banquet he presented some thoughts on the general situation, both present and future, which impressed the delegates as sound business logic.

The importance of credit in establishing an era of prosperity in the United States during the next ten years cannot be overestimated, Mr. Heimann declared. Full utilization of credit should be our objective, he said, but business must be careful that the basic principles of credit acceptance, which were tested and proven so necessary in pre-war years, are not overlooked in the mad rush to get back into top production to supply the world demand for American-made goods.

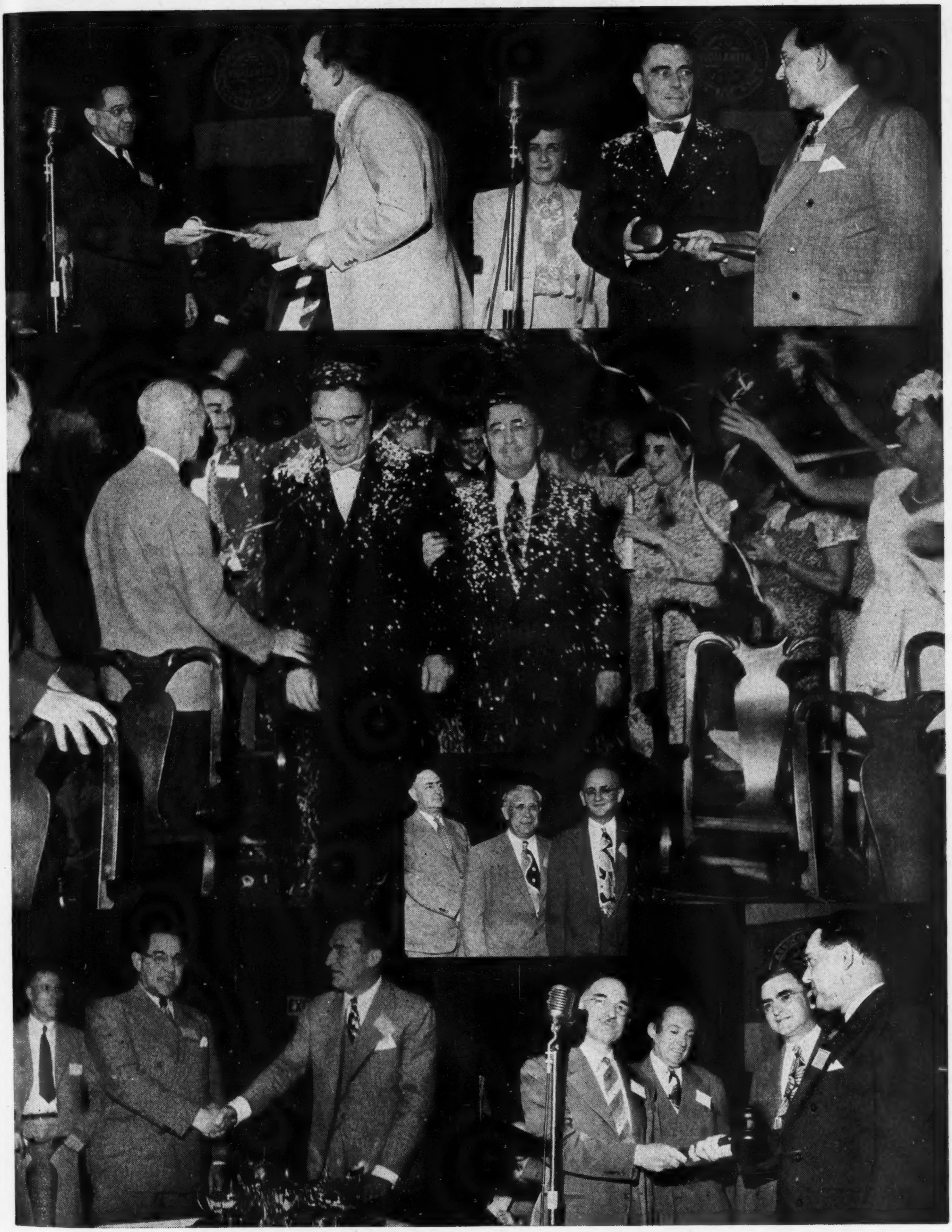
Warning that the path ahead for credit was not without dangerous pitfalls, the chief of the credit men's organization, which now numbers more than 25,000 representatives of the larger corporations in American industry, enumerated the following as some of the aspects of credit which required most careful watching:

Consumer credit must be kept within proper bounds. Mr. Heimann predicted a rapid increase in amount of goods sold on installments. This is a healthy factor, he said, but care must be taken that the credit terms are not too liberal.

Credit evaluation of new customers must be made with special care. Experience and capacity will be of more importance among this type of customers than capital and character. Records from previous war periods show a marked increase in the number of failures among new enterprises, and Mr. Heimann warned that credit losses will mount now unless special care is taken to check upon the experience and capacity of every new account.

New conditions in the present era call for new methods and new formulas for evaluating credits. Special research clinics and programs already are being formulated to meet this very pressing need. Mr. Heimann pointed out that the effect

(*Continued on page 44*)



ON THE ROSTRUM AT FRENCH LICK: (Top, left) Past President Paul Miller presents an engraved gavel to President Simpson. (Top, right) President Elect E. L. Blaine, Jr., receives the gavel from the retiring President. (Center) E. L. Blaine, Jr., marches to rostrum amid the usual shower of confetti. (Inset) The three Vice-Presidents elected at French Lick (left to right) Frank A. Dudley, Portland; Harry J. Offer, Detroit, and Joseph Rubanow, New York. (Lower, left) A beautiful silver service is presented to Mr. and Mrs. Simpson (lower right). Delegation from Omaha presents a permanent gavel to the N.A.C.M. to be used by future presidents.

Lillian Guth Presents Annual Report of CreditWomen'sGroups

As a result of the postponement of the Fiftieth Annual Credit Conference, and in keeping with procedure of other National Committees, the 1945 Credit Women's Committee was asked to carry on for another year.

Consequently, this committee is now completing its second year of service.

The National Credit Women's Executive Committee has an unique function to perform. In common with other National committees, it supervises an activity, but **differs** from them in that it coordinates not one but several objectives, all of them important.

Membership

The Credit Women's Groups performed notably during the past year in their membership work and the reports indicate that they have topped all previous records, having secured 161 new Association memberships. The New York Credit Women's Group heads the list with 48 memberships secured; Chicago is a close second with 40.

Education

Our educational program has been rich and varied. We have tried to promulgate sound standards of credit—encouraging credit women to participate in the credit courses made available to them by the local and National Associations. The records indicate that the percentage of women enrolled for these credit courses is increasingly higher each year. As a matter of fact, the ratio of female enrollments for credit educational courses is far greater than the ratio of women memberships in the Association.

Within our groups, education plays an important part, too, in the planning of programs. We endeavor to give to each individual member an appreciation of the worth of those business ideals which our Association promotes. Our splendid record has been maintained in the award of scholarships to Juniors and assistants in credit work, 17 groups sponsoring 30 scholarships.

New Groups

In 1944 there were 38 groups organized. Three new groups were added in 1945, and three more this year brings the total to 44. Our members have concentrated their endeavors on other potential groups and we are confident that the work which has already been done will be of great assistance to the committee which will succeed us.

During the past year there has been a tremendous increase in the number of contacts between the groups. Our national Committee members have traveled quite extensively at their own expense, visiting credit groups in their own districts and very often in distant cities as well.

Publicity and Publications

Our Vice-Chairman, Blanche Scanlon, in charge of publicity, has again contributed splendidly to this very essential part of our task. The informative *News Letters,* which were started in 1944, proved their value again during this past year, particularly when no general National meeting was possible. These *News Letters* were awaited eagerly because of their very comprehensive accounts of all important happenings and events taking place within the groups. Mention, too, should be made of the special 1945 *News Letter* which was in itself a compendium of just what our task really is and how worthy of our finest efforts.

Credit women have been much in evidence at the regional conferences. At the Tri-State Conference at Wichita one of the main adresses was given by Annie Porter, and all present agreed that her speech was a masterpiece. There is also a great increase in the number of women who have been elected to offices on their local boards and on National Committees.

Appreciation

Our sincere thanks are due to our National Secretary, Marie Ferguson, for constant and sympathetic cooperation. It has been a real pleasure to work with her. Our entire committee will testify to her unstinting help and unselfish devotion.

Executive Managers Talk Shop Two Day-Night Sessions

Perhaps the hardest working group at the French Lick Springs meeting was that composed of the local Association Secretary-Managers and members of their staffs in attendance. The first session was called to order at 2 p. m. on Tuesday after the close of the convention. From that time until the new president of the Secretarial Council took over on Thursday, shortly before 1 o'clock, the Secretary Managers were in session and in committee meetings almost continuously.

The first item on the managers' program was the election of three members of the Secretarial Council and the selection of a new president of the Council. The members of the Council elected are: Stanley Thomas, Philadelphia, representing the Eastern division; Brace Bennitt, Minneapolis, representing the Central division, and J. B. McKelvey of Denver, representing the Western division. These newly elected members of the Council selected A. D. Johnson of

(*Continued on page 48*)

Dr. Smith Outlines Educational Program at French Lick Spa

At the Monday afternoon session of the French Lick Springs meeting, Dr. Carl D. Smith, Director of Education of the National Association, presented a report on the enlarged educational program which will be inaugurated this fall. After reporting on the additional requirements for both the Associate and Fellow awards, he told of the plans for the revival of the Summer Institute and for holding Credit Clinics for senior executives during the present Association year. In concluding his remarks, Dr. Smith said in part:

"In the development of its educational program, the Institute encourages methods of instruction which will permit the individual student to participate frequently in conferences, discussions, and in the finding of solutions to business situations. We believe that the most satisfactory educational results are obtained where free, well directed discussion prevails and where independent thought and action are encouraged and centered about case materials and practical every-day problems.

"We urge that care be exercised in the selection of instructors who know how to teach, who have had practical experience in business and who possess a vital interest in the work and welfare of adult students. Faculty members are to be encouraged to give students every possible opportunity for individual growth and development.

"As far as possible each course is to be carefully outlined for the guidance of instructors and students so that non-essential and extraneous materials may be eliminated and a maximum utilization of the instruction period realized. We readily recognize that the extent to which this objective can be realized is dependent upon the cooperative relationships that can be established with other institutions through which our programs of instruction are offered. In general we advise that chapters make cooperative arrangements with the local college or university for the conduct of its classes. In some chapters where sufficiently large enrollments can be assured, a chapter can be greatly strengthened by administering its own program and conducting its own classes in its own class rooms.

"The qualifying and comprehensive examinations are to be used as a basis for the maintenance of uniform national standards for determining the qualifications of candidates for an award. The possession of an award from the Institute is recognition that the holder has fulfilled certain technical and educational requirements; that he has attained prescribed standards; and that he merits the professional confidence which the public

(*Continued on page 48*)

MORE SIDE LIGHTS AT FRENCH LICK: (Top) Portion of the dais at the Monday night banquet with Ned Pilsbury of New Orleans, a past president, as toastmaster, with President Robert Simpson at the left end. At right end, seated between David A. Weir, Assistant Executive Manager, and Ken Thompson of Cleveland, President of the Secretarial Council, is Robert Simpson, Jr., age 17 years, who drove up from New Orleans with his dad. (Center row, left) Members of the Resolutions Committee take time out to look at the camera. (Right, center) President elect Blaine and Mrs. Blaine talk over the convention thrills after it was all over. (Inset) Miss Julia McCauley, president of the New York Credit Women's Club receives the membership plaque from Executive Manager Heimann. (Lower left) John Ledbetter of Minneapolis is greeted by Executive Manager Heimann as he arrives at the French Lick Hotel. He was the only delegate to fly his own plane to the convention. (Lower right) Four Past Presidents at the President's Luncheon—Messrs. Heimann, Gruen, Fraser and Simpson

Personal Items from French Lick Meeting

The Omaha Association of Credit Men, hosts at the last regular N.A.C.M. Convention in 1944, presented a permanent gavel for use by Presidents and presiding officers at future conventions. S. J. Wirtz, Omaha National Bank, president of the Omaha Association, and Gus P. Horn, secretary-manager were on hand to make the presentation. (See picture on page 39.) The National Board had already provided a gavel for President Simpson, but this is his personal memento of his term of office. The Omaha gavel will be used at future conventions.

* * *

John E. Ledbetter, a National Director 1941-44, flew his own plane to the convention. He made the trip without incident and landed at a small field near the hotel. No long train rides for him, says John, who is the credit executive for the Northrup-King Co., one of the largest seed houses in the central west. He said that the trip by plane provided an inspiring view of the great agricultural area over which he passed.

* * *

Secretary Manager Jim Cox of Chicago carried his left hand in a splint after the first few hours at French Lick. In some unaccountable way Jim had displaced one of the small bones in the wrist joint and, while he did not notice the injury at first, by the time he arrived at French Lick the dislocation had started to swell and cause considerable pain, but the house physician corrected the dislocation and applied a splint.

* * *

Ken Thompson of Cleveland, President of the Secretarial Council and Secretary-Manager of the Cleveland Association, was another casualty of an accident. Shortly before the Thompsons left Cleveland for French Lick, Ken turned his right ankle and suffered a severe sprain. While Ken was compelled to hobble about with the aid of a heavy cane, he was able to attend the convention sessions and also preside at the meeting of the Secretary-Managers on Tuesday, Wednesday and Thursday. Mr. and Mrs. Thompson left on Thursday afternoon to meet their son, who had just been released from Army service after two years.

* * *

Robert Simpson, Jr., 17 years old, drove up from New Orleans with his father. His grandfather, the late W. P. Simpson, served as a National Director for two terms from 1918 to 1924 and his father had served first as National Director, two terms as Vice-President and then two years as President during the war period, so Robert, Jr., represented the third generation of Simpsons at the French Lick meeting. He was thrilled when his father was presented with a very attractive pair of solid gold cuff-links by the National Board at the time of the President's luncheon on Monday noon. Then on Monday evening he attended a meeting of the National Staff, where he saw his father presented a Gruen anniversary watch as a token of regard for the retiring "boss." Then on Tuesday morning he witnessed the presentation of a very attractive silver service to his mother and dad at the close of the convention. Robert, Jr., no doubt will have many thrilling memories of French Lick to relate in future years.

* * *

Frank A. Dudley, General Grocery Co., Portland, Oregon, elected a Vice-President at the French Lick meeting to represent the Western Division, was a late casualty. He awoke on Thursday morning with a severe attack of lumbago that put him under the care of the hotel physician for a short time before starting his long trip back to Portland.

* * *

President-Elect Blaine and Mrs. Blaine and daughter, Jean, will not be back at their home in Seattle until about August 15th. Mr. Blaine will visit many of the customers of his bank—the Peoples National—and then the Blaines will attend the wedding of their son in Kentucky on August 3rd. Early in September Miss Blaine will leave for Leland-Stanford to resume her college course.

* * *

John Neiman, son of Don E. Neiman, Secretary-Manager at Des Moines and a former president of the Secretarial Council, was a first-time attendant at the French Lick Meeting. John, who is now on his father's staff, was recently placed upon the retired list after serving for more than two years in the service of the Federal Bureau of Investigation. His work with the F.B.I. had to do with anti-American activities at some of the larger war plants.

Raymond Hough Will Leave New York CMA; Davis Will Succeed

New York: Raymond Hough, executive manager of the New York Credit Men's Association, retired on June 20, effective May 31, 1947. Mortimer J. Davis, assistant secretary, was immediately appointed assistant executive manager until Mr. Hough's retirement becomes effective.

Mr. Hough, who is a native of Missouri, has been connected with the activities of various branches of the NACM for about 24 years. He entered Association work in Montana in 1922, later serving with the Rocky Mountain Association at Denver. He came to New York in 1928, and joined the staff of the New York Adjustment Bureau, and later organized the Credit Group department. In 1933 he was appointed general service manager and assistant secretary. He was made acting executive manager in 1943 and executive head in 1944.

Mortimer J. Davis joined the NACM as assistant director of the Eastern Division of the Credit Protection Department in 1925.

Packaging Group Meets in Chicago For Conference

Chicago: C. D. Rossiter, Marathon Corporation, Menasha, Wis., Chairman of the National Paper Packaging Credit Group of the National Association of Credit Men, presided over the conference at the Morrison Hotel, Chicago, Thursday, June 13. V. C. Eggerding, Gaylord Container Corporation, St. Louis, was chairman of the morning and afternoon sessions and gave the report of the Membership Committee.

James S. Cox, Secretary-Manager of the Chicago Association of Credit Men and secretary of the Group, read the paper on "How to Get the Most from Your Credit Information Sources," prepared by G. C. Klippel, general credit manager of Van Camp Hardware Company, Indianapolis, who was unable to be present.

The luncheon speaker was Horace A. DuBois, assistant to W. H. Swanson, assistant general superintendent of Kimberly-Clark Corporation, Neenah, Wis., on the subject "The Outlook for Pulp Supply in the Paper Industry."

"Warehouse Financing" was discussed by R. W. Rogers, assistant vice-president of the Harris Trust and Savings Bank, Chicago, and V. R. Stearns, Dobeckmun Company, Cleveland, led the round table discussion on "Cash Discounts."

Memphis Credit Men Elect New Officers At Annual Meeting

Memphis: On May 30 the Memphis Association of Credit Men celebrated its 47th Anniversary with a banquet at the Peabody Hotel. Approximately 300 members and guests attended the gala occasion, the highlight of which was the drawing of about 75 prizes donated by members.

Officers elected at the meeting were: J. M. Chiles, Clayton-Brown Co., President; D. T. Guyton, General Motors Acceptance Corp., 1st Vice-President; O. E. Cathey, Rotary Lift Co., 2nd Vice-President, and E. D. Moseley, Pidgeon-Thomas Iron Co., Treasurer.

Oklahoma City Lost Staunch Support When W. Frank Haven Died

Oklahoma City: The Oklahoma Wholesale Credit Men's Association was shocked last month at the death of W. Frank Haven, Vice-President of the Liberty National Bank. He was one of the oldest members of the Oklahoma Association and had given generously of his time and talent for many years in the advancement of association activities and sound credit principles. Mr. Haven served as Treasurer of the local association for a number of terms, headed some of the most important committees and always attended every meeting.

WOMEN'S GROUPS AND OTHERS AT FRENCH LICK: (Top) Some Credit Women pose on the hotel steps. The mere man in the picture called himself "a rose in the thornbush." (Second row) Groups of delegates snapped in the hotel lobby and grounds. (Third row, left) Secretary Cahoon, of the Norfolk Association, proudly displays the membership award given his Association. Delegates from Philadelphia and the Third District help Stanley Thomas (showing check) celebrate his award in the contest for best ideas among the Secretary Managers. (Lower) Secretary Manager Heimann poses with the Credit Women's Executive Committee.

Heimann's Address

(Continued from page 38)

of this research will be to place credit upon a sound professional basis.

"Many of the associations affiliated in our national organization have special committees to consult with and advise service men who are seeking to enter business. During the war several of our associations actually handled the business of service men who had been drafted and, although some of these enterprises were found to be substandard in their financial status, they were all returned to the service men as going institutions and much better in their finances. This aid to service men will be one of the big assignments of our credit organization during the next twelve months."

In touching on national affairs, Mr. Heimann expressed the hope that public opinion, which had finally registered a protest against the continuous labor-management rowing, would become equally impatient with the general idea that our government could continue on deficit financing. "The time has come," he said, "when our nation must live within its income and make plans in a definite way to amortize the war bonds in which so many millions of our people have invested."

"Because of the importance of credit in the post-war period the wholesale credit men's association is redoubling its efforts to maintain the ethics of credit conduct and credit practices," Mr. Heimann continued. "It is unusually well prepared to deal with the fraudulent credit seekers who attempt to ply their trade. Through its Fraud Prevention Department it has investigated thousands of credit frauds in the course of the past quarter of a century. It has placed evidence before the public authorities with the result that over seventeen hundred crooks have been indicted and convicted of credit crimes. The organization has pledged itself anew to continue this policing work. Although the cost of these investigations involved several millions of dollars, the recoveries procured from stolen merchandise and secreted assets exceeded the outlay made by the organization."

S. J. Wirtz Is Chosen By Omaha to Be Their 1946-47 President

Omaha: The Omaha Association of Credit Men has elected S. J. Wirtz, Omaha National Bank, to the Presidency of the Association for the year 1946-47. Assisting him are Frank H. McCall, Fairmont Creamery Co., 1st Vice-President, and John C. Conley, 2nd Vice-President.

The Annual Meeting and May Party was a great success, due to the efforts of the members of the Credit Women's Club under the leadership of Mrs. Elsie Wally, Omaha Crockery Co., the newly elected President of the Club.

Statement of Policy of the 50th NACM Credit Conference

French Lick Springs, Ind.

June 24-25, 1946

This Credit Conference, having received from its Committee on Resolutions a statement of policy and recommendations, declares it adopted and urges the members of this Association to exert their weight of influence in implementing these resolutions, recognizing the clear responsibility and obligations of the credit fraternity to the national economy.

BALANCED BUDGET

Recognizing the need to resolve our domestic difficulties so that our economic and productive forces may be restored and being mindful that until our own household is put in order our ability to produce can not be exercised to the fullest power, we urge the balancing of the budget at the earliest possible moment. A continuance of deficit spending endangers our national financial welfare—strong inflationary trends are being stimulated by large scale Federal deficit fiscal policy. Therefore, we urge our constituted representatives in Congress to provide and maintain a balanced budget beginning with the fiscal year July 1, 1946.

TAXATION

Recognizing a debt burden of $275 billion, we urge the Congress of the United States to consider revisions of the present tax structure and to legislate enactments which will:

1. Remain reasonably stable until the debt burden has been liquidated, when a reduction can be effected to the benefit of all.
2. Encourage the establishment of new enterprise and stimulate the growth of existing businesses.
3. Reduce, as far as possible, the restrictions on the growth of production and permit the consequent attainment of a high level of employment.
4. Stimulate the individual's initiative, ability, thrift, and diligent application to work.
5. Maintain the highest possible buying power of the consumer in order that there may be the broadest possible market demand for goods and services.
6. Allow the tax burden to fall equally upon those above the minimum subsistence levels who possess ability to pay with a progressive rise in accordance with that ability.
7. Bring about the equal sharing of the tax burden by cooperatives formed as a device to accomplish tax avoidance.
8. Provide ample means for vigorous enforcement to prevent tax evasion.
9. Eliminate exemptions to aliens for any type of taxes, national, state or local, which apply to United States citizens.
10. Provide for a limitation on Federal taxation after adequate debt reduction, and except in times of war or national peril.

GENERAL

In the interest of adequate production and its effect on our national economy, world economy and world peace, we urge that management and labor harmoniously resolve their differences and recognize their obligations to eliminate stoppages which are detrimental and injurious to the interests of the general public.

CREDIT RESPONSIBILITY AND POLICY

Recognizing the current credit and collection problems in the immediate future, we recommend:

1. The adoption by management of a sound and consistent credit and collection policy.
2. The encouragement and promotion of full cooperation and coordination between the sales and credit departments to achieve a maximum of sales and a minimum of credit losses to sustain a growing and profitable business enterprise.
3. A recognition of the responsibility of the credit fraternity to curb failures in the best interests of our national economy by distinguishing between pure gambles and good business risks.
4. The exercise of discretion and care in the granting of credit to new firms and old on the basis of adequate credit information.

ASSOCIATION SERVICES

We commend the worthy accomplishments made during the year in the reorganization of the Credit Interchange Service and urge that our members make maximum use of the excellent service afforded by your Credit Interchange Bureaus. We again urge all members to make use of Credit Interchange Bureaus whenever possible as the basis for reliable information for their credit files.

We also recommend to our members the services of the Adjustment and Collection Bureaus wherever available and urge the use of these services as being of special value during the periods of rapid changes in credit situations which seem inevitable.

EDUCATION AND PROFESSIONAL STATUS OF THE CREDIT FRATERNITY

Credit management at its best is a science—those charged with its administration acquire expert knowledge of that science.

The mastery of credit management re-

quires a complete understanding of these four fundamentals:

1. The importance of commercial ethics.

2. Training in the fundamental subjects of economics and business organization, credits and business finance.

3. Training in the application of basic principles of good human relations to the fostering of better customer relations.

4. Training in the techniques of analysis and appraisal in solving problems and unusual situations.

We strongly urge that our membership give full endorsement to the National program of education which has as its objectives the attainment of a higher professional recognition for those who engage in credit work.

We further urge that each affiliated Association and each chartered Chapter of the National Institute of Credit begin immediate plans for the introduction of this program in whole or in part into their respective communities.

RESEARCH DEVELOPMENT

We urge the Association to take immediate steps to put into effect a program of research in order that the adequate development of worth while practical material may be assembled and made available for the use of the membership.

IN MEMORIAM

In tribute to the outstanding work which the Honorable Carter Glass accomplished in the Congress in sponsoring the Federal Reserve Act and other important legislation in the interests of proper credit and financial policies and procedures, we hereby go on record in expressing our grateful appreciation for his untiring services.

APPRECIATION

To the management and members of the French Lick Springs Hotel staff whose friendly hospitality and courteous service have made our stay here most pleasant, we express our sincere appreciation.

To S. S. May of the Daily News Record of New York, we express gratitude for his important contribution in so generously making available the columns of his publication for current credit items.

We also express our appreciation to all the general news services, the Associated Press, United Press and the International News Service and to all daily newspapers for their cooperation in presenting the news about the activities of our Association to the public.

Gunder Johnson Is St. Paul's New President

St. Paul: At the annual meeting of the directors of the St. Paul Association of Credit Men held on June 4th, the following officers were elected to serve until June 1st, 1947: President, Gunder Johnson, Mutual Dealers Wholesalers, Inc.; Vice-President, J. N. McBride, Socony Vacuum Oil Co.; Secretary-Treasurer, Truman E. Reynolds.

News of the Credit Women's Clubs

New York: The New York Credit Women's Group has been awarded the National membership plaque in recognition of its having secured the greatest number of Association members of any of the credit women's groups. Altogether the ladies of the Groups have accounted for 161 new Association members. The New York groups were responsible for 48 of that number.

Philadelphia: The Credit Women's Club of Philadelphia held their June meeting out of the city for a change. The locale of the meeting was the Strath Haven Inn at Swarthmore.

This was a good opportunity for an afternoon of relaxation, good fellowship and fun and an interesting luncheon. Several games were planned, but the program was very flexible, many members preferring just to be outside and enjoying the outdoors and attractive surroundings.

Tacoma: The Tacoma Credit Women's Club featured a Bathing Beauty Style Show at their annual Bosses' Night dinner and program, which was held at the University Union Club, on May 13, 1946. In addition to the Style Show, music and other entertainment was provided. A cocktail hour preceded the excellent dinner.

The Tacoma club has just completed a particularly successful year under the leadership of Ruth Hatchell. New officers for the ensuing year were elected at the April meeting and were installed in their various positions at the monthly meeting on June 17.

Cleveland: Forty-six members were in attendance at the June meeting of the Cleveland Credit Women's Club, which was held at "The Gables."

One order of business was the resignation of Adelpha Horten as Treasurer of the club and election of Agnes M. Dease, of Graybar Electric Company, to succeed her. The newly elected officers were installed at this meeting.

Drawing for the annual scholarship covering a Credit course at Cleveland or Fenn College took place and was won by Sara Yoelson.

Oklahoma City: The Wholesale Credit Women's Club of Oklahoma City revised by-laws of the organization and elected officers for a two-year term instead of the usual one-year period.

Officers elected were Vera Hamby, Wilson and Company, President; Ruth Argo, Oklahoma Wholesale Credit Men's Association, Vice-President; Lois Brasher, Griggin Grocery Company, Secretary, and Hazel Frederick, L. H. Jarvis and Company, Treasurer.

Research Foundation

(Continued from page 37)

steel production during the past few years, Mr. Miller said.

If credit is to advance in step with modern industry, we also must have the advantages of proper research and still further expansion in the field of Credit Education to help solve the problems that will face credit executives in the next few years, the Past President declared in his argument for the adoption of the proposed plan for a definite research program.

Mr. Miller made it very clear that the Credit Research Foundation was in no sense a means of further financing the National Association of Credit Men, but rather is intended to provide the means for doing special work which the present Association set-up could not provide. He mentioned as possible items for the research agenda a study of the causes of business failures; a complete survey by industries on selling terms so as to find out whether or not under present business conditions cash discounts should be continued; a series of district conferences and clinics for senior credit executives programmed on a regional basis to keep the heads of financial departments in touch with progressive ideas.

Mr. Miller's Committee submitted a further report at the meeting of the Board of Directors held after the business session at French Lick and his committee was continued for further study and a final report.

Industry Credit Group Night Huge Success At Los Angeles

Los Angeles: A near capacity attendance greeted the celebration of the annual Industry Credit Group Night which was held at the Rodger Young Auditorium, June 14. Before dinner members and guests inspected fourteen artistically decorated tables typifying the various activities. A delicious steak dinner was then served.

Fred Cates, Chairman of the Board of Governors of The Industrial Credit Groups, then announced the winners. The prize for the most beautiful table was awarded to the Industrial Group, whose chairman is John Banks. The prize most typical of the industry was awarded to the Dairy Group, whose chairman is Bill Gaster. Honorable mention was awarded to the Gift and Art table, whose members had all donated the articles used in the display and who had forwarded the money contributed for this purpose to the United Children's Relief Fund. Special mention was also given to the display of the Milling and Flour group, typifying the idea that America feeds the world.

There was no business conducted and the balance of the evening was spent in dancing to the rhythms of Art Whitings' orchestra.

New York Credit Men Keep Close Touch with CPA's

New York: Realizing that no two professions have more in common than those of Accountancy and Credit, the New York Credit Men's Association and the New York State Society of CPA's have, by cordial cooperation and frank discussion, made great strides in creating a better understanding of the functions, responsibilities and problems of each other over the years.

From the several joint and separate meetings held during the past year it is apparent that, with competitive conditions slowly but surely returning in business, with added problems caused by reconversion, taxation, labor relations, prices, costs, economic conditions and so forth, credit grantors will require more detailed and current financial information if they are to serve their customers properly and adequately. Relationships between supplier, customer and accountant in the preparation and furnishing of financial data must necessarily become closer in all lines of trade.

To these ends the Committee on Cooperation with Certified Public Accountants, meeting in joint session with the committee of the New York State Society, agreed upon a program of more frequent and regular meetings during the year immediately ahead. Each committee will prepare programs, questions or suggestions to be submitted to the other.

Reader Derives Benefit

(*Continued from page* 36)

6 Gave just a character reference.
2 Recommended account for credit on length of time account known to them.
2 Reported vague balances with no recommendations.

SUMMARY

370 Answers received out of a possible 500.

Boston Chapter Discusses New Credit Education Plan

Boston: On June 10th, Dr. Carl D. Smith, Director of Education, NACM, met with officers and members of the Board of Governors of the Boston Chapter, National Institute of Credit, and discussed with them the various aspects of the new plan of education.

After a general discussion the meeting adjourned to a later date for a definite decision as to the manner in which the Boston Chapter will tie into the National program.

President Blaine Reports To Meeting on Successful Membership Drive

This is the first time since the Omaha Convention in 1944 that a public report has been made on our membership progress. It is appropriate, therefore, that it include the results of the year 1944-45, as well as the one just past.

For a considerable period of time our Association stood relatively still membership-wise at a figure of approximately 18,000. Came 1943 and the National Board pledged an increase of 10% and turned the job over to Past President Bruce Tritton. With the loyal support of local membership committees, officers, secretaries and national staff, officers, directors and committee, he did an outstanding work and reported a net gain of 1681 to the Omaha Convention—the first substantial gain in years.

It was my good fortune to succeed Bruce Tritton to the chairmanship of the membership committee, for I had the benefit of the momentum and enthusiasm which had been created and we went on that year to register a gain of 2,655 and bring our totals to 22,359. As in his case, I enjoyed outstanding cooperation from everyone connected with membership from the local level up through the National Board. Time does not permit the listing of all those who did yeoman service but I do want to pay public tribute to those Associations who led their respective class in that year. They have already received their official certificate and award but this is the first opportunity to give public acknowledgment of their accomplishment.

The impossibility of holding a convention in 1945 resulted in all officers and committees holding over. The double duty thus imposed did not seem to feaze the loyal members of our National Committee, for with the help of new local committees and officers we went on in 1945-46 to register a net gain of 2,671 and bring our totals to 25,030. This unequalled record of 5,326 new members gained in two years is a tribute to the untiring efforts of the National Committee members, officers and directors who served during the entire time and to the local committees, officers and secretaries who served during one or the other of the two years.

It would be impossible to name all those who contributed to this splendid showing because to do so would require nearly the complete roster of our national membership, for in the local Associations the entire membership was on call to assist and supplement the directive work of the local committee members. I do, however, wish to add the Credit Women's Clubs Secretarial Council and Loyal Order of Zebras to the list of individuals and groups mentioned before.

I am deeply conscious of the effort put forth by all of these people but I am not going to thank them. Rather I am going to congratulate them, for I am sure that they, like myself, find any needed thanks in the self satisfaction and gratifying experience of a job well done.

Class A honors go to San Francisco with a percentage gain of 116.64%. This was accomplished under the leadership of H. G. Hyland, Chairman of the Membership Committee; H. T. Kelley, President, and O. H. Walker, Secretary.

Class B honors go to Kansas City with a percentage gain of 142.85%. This was accomplished under the leadership of R. W. Durrett, Chairman of the Membership Committee; N. W. Bailey, President, and J. N. Ham, Secretary.

Class C honors go to Denver with a percentage gain of 131.57%. This was accomplished under the leadership of Alex Turnbull, Chairman of the Membership Committee; L. M. Davis, President, and J. B. McKelvy, Secretary.

Class D honors go to Lexington with a percentage gain of 140.74%. This was accomplished under the leadership of James Ernest, Chairman of the Membership Committee; I. B. Jones, President, and George C. Roberts, Sr., Secretary.

Class E honors go to Honolulu with a percentage gain of 179.59%. This was accomplished under the leadership of A. S. Austin, President, and Alvin A. Smith, Secretary.

Class F honors go to Columbus with a percentage gain of 182.14%. This was accomplished under the leadership of W. B. White, Chairman of the Membership Committee; Harry S. Hahn, President, and A. M. Sutherland, Secretary.

In Class F Norfolk leads with a percentage gain of 179.17%.

We have now started our 1946-47 membership year with a gain for the month of May in Terre Haute, Ind. At no time, in recent history, was there such an opportunity for our Association to help America and American business. At no time did credit men need their Association more. Let us invite them all to join together for our mutual benefit. I extend my sincerest best wishes to my successor and his committee and I trust they may have the same degree of cooperation from all local committee officers and secretaries.

Cleveland Elects New Board To Serve For Coming Year

Cleveland: W. T. McWade, assistant cashier and manager of the credit department of the Union Bank of Commerce, is the new President of the Cleveland Association of Credit Men, following elections at the annual meeting. He succeeds E. B. Gausby of the Warner and Swasey Co.

Other officers elected were: E. H. Davies, Cleveland Electric Illuminating Co., First Vice-President; A. P. Gram, Eaton Manufacturing Co., Second Vice-President, and W. P. Chamberlain, Cleveland-Cliffs Iron Co., Treasurer.

Results of Five Year Membership Drive Announced

With all the excitement of the 1945-46 Membership race still not entirely abated, one was almost liable to forget about the longer-range five-year membership trophies.

There were some startling results. Denver, for instance, won both the one-year and the five-year trophies. Five Associations doubled, or more than doubled, their membership. San Antonio grew from 47 to 122, making their membership now 259.79% of their 1941 figure. Chattanooga, Binghamton, Terre Haute and Honolulu also reached 200% or better.

Below are listed the leaders in the various classes with their percentage net gain over the five years and their places in the 1945-46 race.

CLASS A—Membership over 500		
	Gain %	1945-46
PHILADELPHIA	94.12	6
New York	62.4	3
Indianapolis	61.11	5
CLASS B—250 to 499		
BALTIMORE	81.7	3
Rochester	66.16	2
Kansas City	41.34	1
CLASS C—175 to 249		
DENVER	59.23	1
Dallas	35.58	2
Omaha	30.85	3
CLASS D—100 to 174		
SAN ANTONIO	159.79	16
Chattanooga	115.85	7
San Diego	70.97	2
CLASS E—40 to 99		
BINGHAMTON	111.63	2
Terre Haute	109.09	25
Honolulu	100	1
CLASS F—Under 40		
NORFOLK	78.17	10
Austin	75	9
Little Rock	65.22	8

D. A. Weir Addresses Canadian Credit Men at Quebec Conference

Murray Bay: Credit executives from many parts of the Dominion of Canada and the United States gathered at the Manoir Richelieu at Murray Bay on Friday, June 14, for the four-day Eastern Credit Conference of the Canadian Credit Men's Trust Association. The Conference, under the chairmanship of W. G. Marks, Assistant Treasurer of Building Products, Ltd., Montreal, was sponsored by the Quebec Division of the Association and was addressed by many speakers prominent in business and professional life.

Among the speakers was David A. Weir, Assistant Executive Manager, NACM.

Louisville's Unusual Annual Meeting Is A Striking Success

Louisville: The advantages of owning your own building are graphically shown in the picture above.

The Louisville Association of Credit Men are in such a fortunate position, and this year they tried the experiment of holding the annual meeting in the patio of the building. It turned out to be a huge success and gave members an opportunity and good reason to take their guests and prospects right into the Association's offices and show them how the ACM clicks. Of course, if you are going to hold a buffet luncheon on the Association property it helps if you have a patio.

Eastern New York Credit Men Hold Annual Election

Albany: The annual meeting and election of officers of the Eastern New York Association of Credit Men was held on May 28, 1946, at Wolfert's Roost Country Club, Albany. Following the dinner and business meeting the following officers and directors were elected: President, Raymond D. Hilton, State Bank of Albany; Vice-President, Morton J. Hall, Massachusetts Mutual Life Insurance Co.; Treasurer, Robert H. Temple, First Trust Company of Albany, and Secretary, Gustav Koschorreck, Dun and Bradstreet, Inc. Donald M. Terry, The National Commercial Bank and Trust Company of Albany, was elected National Councillor.

A program of entertainment was furnished, following which the meeting was addressed by Mr. Harry C. France on "Money Medley." Mr. France was one of the organizers of the Hamilton National Bank of New York; was formerly associated with the U. S. Treasury Department and Guaranty Trust Company, and writes a column on Finance which is published in about forty newspapers.

Baltimore Celebrates 49th Year of Credit Men's Association

Baltimore: More than 300 members and guests attended the 49th Annual Meeting of the Baltimore Association of Credit Men held in the Ballroom of the Lord Baltimore Hotel on May 28. Mr. Hugh F. B. Kerr, retiring President, reported briefly the accomplishments during his term of office of the various committees.

New officers were elected at the meeting. Arthur L. Franklin, Pittsburgh Plate Glass Co., was chosen to be President; 1st Vice-President is Stanley B. Trott, Maryland Trust Co.; William H. Marshall, Butler Bros., is 2nd Vice-President, and J. Walter Jackson, D. C. Elphinstone, is Treasurer.

Twenty-five students successfully completed the course in Credit Management sponsored by the Association in cooperation with the Johns Hopkins University.

Salt Lake City Credit Men Elect D. K. Porter To Succeed Robert Peel

Salt Lake City: D. K. Porter has been elected to succeed Robert Peel as executive manager of the Intermountain Association of Credit Men.

Mr. Peel has been a prominent business executive in Salt Lake City for many years. He was appointed executive manager of the Credit Men's Association in 1928, before which time he had been connected with the Symns-Utah Grocery Company. He has now returned to that firm as President and General Manager.

Mr. Porter joined the Credit Association in 1921 and has been assistant manager for the last 15 years.

Secretary - Managers Talk Shop

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Los Angeles to serve as president of the Council for the next year.

At the Tuesday afternoon session the managers heard a report by Alfred Kruhm of the National staff on a survey he had made on dues and service rates in the various Associations. A discussion of this report was led by O. H. Walker of San Francisco and Sam J. Schneider of Louisville.

On Wednesday morning a general discussion of Credit Interchange was held, with Gus C. Klippel of Indianapolis, who is chairman of the Board of Governors of Credit Interchange, and S. J. Heider, Manager of the Central Bureau of Credit Interchange in St. Louis, answering questions about the operations of the Bureaus under the new plan which was instituted on January 1st last. The views and recommendations of the Secretary-Managers during this session were then considered by the Board of Governors at a later session.

The Wednesday afternoon session was devoted to a report by members of the National staff on various departmental activities. Dr. Carl D. Smith reported on the educational program, R. G. Tobin told of the publications and E. B. Moran presented plans he has prepared for the next membership promotional campaign. These include a specially designed sales manual for use by those who go out to solicit memberships and a ne wsales booklet for general distribution which has been named "Fifty Years of Progress." The booklet is designed to present the accomplishments of N.A.C.M. during its first fifty years.

On Wednesday night an interesting discussion under the leadership of Don Neimann of Des Moines took up some of the problems of the smaller Associations which were not able to follow the general practices of the larger groups.

The Thursday morning session was devoted to plans and practices of Associations operating collection and adjustment Bureaus. With a return of general business activities, it was predicted that these Bureaus would show a marked increase in their operations during the next few months.

George A. Junk Ends Association With Firm

Sioux City: George A. Junk, Credit Manager of McKesson and Robbins, Inc., since 1919, retired from the firm last month. Mr. Junk was an old and valued member of the Interstate Association of Credit Men. He was Program Chairman in 1919 and President in 1922.

He has been very active in all Association affairs and attends monthly meetings regularly. The Interstate Association plans to confer honorary membership on him.

Credit Education

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places in the credit man. Only by maintaining uniform national standards of measurement can we be sure that the professional recognition of our awards is safeguarded.

"This new program has been adopted with enthusiasm by our National Credit Education Committee and by the Administrative Committee of the National Board of Directors. It has been presented to the Education Committee and officers and staffs of 12 Institute chapters and affiliated associations. In every case the response has been most cooperative. This program seems to embody the educational desires and ideals held in common by our members. The acceptance of the program is only a beginning. The task of selling it to our membership, to the officers and staffs of our respective chapters and associations, and most of all to top management of our member firms is the next major and essential step. To implement the program so that it will be administered on an educational, business-like basis is necessary if the program is to achieve the ends we have set forth. These obligations rest heavily upon the headquarters staff of the Institute and upon the officers and staff of each chapter and affiliated association. Our responsibilities are great, but commensurate with them are the significant opportunities for the future."

Los Angeles Herd Wins First Annual Zebra Member Race

Los Angeles: Les Fishback, Grand Exalted Super Zeb, in a letter quoted in the April edition of CREDIT AND FINANCIAL MANAGEMENT, stated that when the final tabulation was made of memberships in the Association acquired through direct Zebra effort he would provide a membership trophy, suitably engraved, and would travel to the winning herd and present it in person.

Well, he won't have far to go. In fact, the Los Angeles Herd No. 1 has swindled the Grand Exalted Super Zeb out of a trip by winning the trophy hands down. And yet not so easily at that, for the Chattanooga herd was very close behind. The results follow:

LOS ANGELES	484.06%
CHATTANOOGA	420.00%
SAN DIEGO	161.90%
Milwaukee	133.33%
Wichita	91.66%
Toledo	73.91%
New Orleans	65.00%
Oakland	55.32%
Pittsburgh	50.00%
San Francisco	47.86%
Tacoma	25.00%

The Insurer's Point of View

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reviewing the risk. We cannot issue policies with the understanding that the policyholder is free to change the date on which payment is due (and that is the essence of an extension agreement). Nor should we accept a claim without the privilege of seeking recovery from the debtor; but certainly an extension agreement would prevent immediate action.

If the creditor wishes to grant an extension either because of good relations with the debtor in the past or expectation of profitable dealings in the future, he is privileged to do so, but relations between debtor and creditor are not the subject of our insurance. If he invites our opinion we are willing to review cases individually.

Finally, if requests for extension were included as insolvencies, the provision would be a source of annoyance to many policyholders. If that provision were included and a debtor requested extension, the policyholder would be forced to file his claim with us within 20 days after the debtor's request, even though the reason for that request might be some temporary difficulty and the debtor not truly insolvent.

The facts stated above are the result of my 15 years' association with credit insurance, but these are endorsed by Officers of this Company with an aggregate experience in credit insurance running well up into the years. I hope you do not regard my letter as unnecessarily critical. I do believe that Mr. Everberg's long experience in credit insurance, even though confined to service activities, should have given him a better understanding of the coverage than his article discloses. In a letter about the article one of our managers wrote: "It seems strange to me that he could be so wrong about general extensions." I can only add that it seems strange to me he can be so wrong about credit insurance.